

BUSINESS MANAGEMENT

*Training and Service
for Executive Work*

*Fundamentals of
Collections **
Collection Procedure*

LA SALLE EXTENSION
UNIVERSITY
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BUSINESS MANAGEMENT

Executive Manuals 54 and 55

FUNDAMENTALS OF COL- LECTIONS — Being Executive Manual 54, on Credits and Collections, in a Complete Plan of Training and Service for Executive Work

*Investigated, organized, and presented by
the research, consultation, and editorial
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Especially acknowledging
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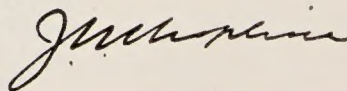
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FUNDAMENTALS OF COLLECTIONS

Part I

BASIC COLLECTION FACTS

THE financial vigor of a business is sustained by prompt collections. If collections are poor, the cost of financing the business is higher; for then more working capital is required than when collections are good, as explained in the preceding major section on financing a business.

It is highly desirable that every executive in a business understand the basic principles that underlie the successful solution of the collection problem. The service activities of other departments nearly always have considerable influence for or against the efficiency of collections—and the efficiency of collections, in turn, has considerable influence on activities in other departments thru its effect on the problem of financing the business as a whole.

Let us, therefore, take this next step toward securing a well-rounded training for executive work with full appreciation of its importance, no matter where we happen to be placed in a business.

As presented in this and the following executive manual, we shall analyze the collection problem as a whole. The principles of successful collecting and their application will be covered in a manner that will enable us to fit, apply, and amplify those principles in their application to individual cases. The examples given are not intended as forms to be used in similar cases, but they are illustrations of the customary routine procedure in bringing increasing pressure to bear for payment of overdue accounts.

The legal aspects of the subject—the law in relation

to notes, accounts, and other evidences of indebtedness, as well as to the security—will be fully covered in the last major section on legal problems.

The Scope of Collections. First, what do collections cover?

In the broad meaning of the term, collections include everything that pertains to the supervision, checking, and following up of accounts and notes receivable and other current receivables of every kind until they are fully paid in.

In a narrower meaning of the term, collections cover only those items of indebtedness that require special effort in order to secure payment on them.

Altho the great majority of debts are paid promptly on or before maturity, all accounts are kept under observation by those in charge of collections. There are many receivables that need special attention—accounts that are likely to be, or actually are, slow pay. The collection man is likely to feel, in fact, that nearly all the accounts of a business house are slow pay, because he has to handle only that kind of accounts.

Our interest in considering collections, therefore, will concern mainly those accounts that are slow in paying their debts. In fact, we may consistently define collections as—

The practice and routine of following up slow-pay accounts (or other receivables due but unpaid) to the point of payment.

The Usual Plan of Procedure. The usual procedure in handling slow-pay accounts, and other receivables due but unpaid, is first to send a simple and polite reminder of the obligation to pay; then, if payment is not received shortly, to follow up this reminder with increasing vigor until the debt is paid, even tho it becomes necessary to place the claim in the hands of an attorney for forced collection.

The time and expense incurred in following the foregoing procedure to the point of payment depends upon—

1. The cause of the failure of the debtor to pay promptly.
2. The efficiency of the collection procedure employed.

The cause may be the poor financial condition of the debtor, a grievance or claim against the house made by the debtor, or it may be the debtor's desire to evade payment, at least as long as possible, apart from any reasonable cause. Then, too, it must be remembered that collections depend, to a great extent, upon the way in which the credit man and the sales department handle the account when it first comes into the house.

If a new customer is, directly or indirectly, led to feel that he may take liberty with the established terms of sale, he will in all likelihood accept the privilege.

The point here, however, is that in applying a plan of procedure in making collections, the efficient collection man tries to find out as soon as possible what is the real cause of delay; then he handles the case in the light of that information.

Conditions Encountered by the Collector. If the debtor should be on the verge of insolvency, the good collector will probably be the first to realize the fact. His analysis of the situation prepares him for constructive work. Instead of using the first pretext he can find for pushing the debtor over the brink, he will concentrate his ability and energy toward assisting the debtor to such a conversion of his assets as will both assure payment of the account due and, if possible, re-establish the debtor on better footing.

A debtor with ample assets may be careless, slovenly, or ignorant. In such a case, the collector, by courteous but firm insistence, and with constructive discussion of the various excuses presented, will not only collect his account, but at the same time assist the debtor to a full realization of the bad effects of his carelessness.

A good collection man secures payment without weakening the financial condition of the debtor; he constructively builds up the debtor's ability to pay wherever this action is possible.

The debtor with small capital may be doing a volume of business or extending credit in excess of the amount warranted by his working capital. The efficient collector, by discussing and analyzing reasons for failure to pay, can frequently make the debtor realize that more careful credit extensions on his (the debtor's) part will conserve his working capital, give him greater profit, and improve his own credit standing. He can keep his own credit operations within bounds by carefully selecting, from business in sight, that which promises him prompt payment. He can avoid taking on contracts which would unduly tie up his working capital.

Should a debtor be inclined to be untruthful and dishonest, the collector's constructive job lies in convincing that debtor of the desirability of truthfulness and honesty. Where the debtor is unquestionably dishonest, frank recognition of this condition by the collector is best. Without directly accusing the debtor of dishonesty, he can frankly point out inconsistencies and impress upon the debtor the loss of credit standing that always comes to the man who is dishonest, whether that dishonesty be deliberate or more a matter of carelessness.

Such is the constructive work of the efficient collector; he is never destructive, demoralizing, or oppressive. He knows that—

A hard collection, if properly handled, may result in a condition so much improved as to insure prompt subsequent collections on that account.

In every case, a record of facts is preserved concerning the debtor's condition as developed in the course of collecting. This record is valuable both to the collector in handling subsequent collections and to the credit man in handling subsequent applications for credit. Collec-

tion records, in fact, are one of the most important sources of information concerning credit worthiness.

THE COLLECTOR HIMSELF

Probably no line of business endeavor affords greater opportunities for employment of broad faculties of discernment, discrimination, and analysis than does the field of collections. To succeed as a collector of debts, one must possess certain indispensable qualities of personality, education, and business training.

The collector should be constitutionally courteous and considerate, yet firm and not gullible. He must be a very keen judge of human nature and have the ability quickly to adjust his procedure to fit the personality of the debtor. He should have a good general education and be able to express his thoughts skillfully. He must be able to grasp and understand the important features of the environment that surrounds the debtor and to adapt his appeal for payment accordingly. In brief, he must be an expert correspondent. (Our training in effective business writing will come later in the major section on business correspondence.)

The efficient collector is a leader rather than a driver; he is diplomatic, not domineering. He must, after having decided on a reasonable and fair course of action, be persistent and steadfast; but never offensive. He must be energetic, prompt, and systematic. He must be open-minded and straightforward—an example of what he requires of the debtor.

Being in the right, he should patiently explain, but he should not be apologetic. When claiming, or even demanding his dues, he must be gentlemanly and persuasive; never coarse or insulting.

All in all, the higher his personal attainments, his character, and his business training, the better is a man qualified for the difficult task of collecting past-due accounts; for this work requires true efficiency.

The Collector's Relation to Other Executives. The relation of sales, credits, accounting, and collections is so close that in considering one of this group we cannot ignore the others. Each sale embodies the functions of sales, credits, accounting, and collection. A sale is not complete until the selling price has been collected in full. Credit granting must consider sales and accounting expense as well as collection probability and expense. Accounting must portray sales facts that are the basis for collections.

A collection, when effected, justifies the credit. It completes the transaction started by the sales department and shown on the records of the accounting department.

In a small organization where all divisions of business are under the supervision of one individual, collection naturally follows lines which not only act in close cooperation with credit granting but also take into consideration future sales and credit to the same debtor. In large institutions where it is profitable, expedient, and even necessary to specialize, there is need for caution to prevent each division from losing sight of the function of the organization as a whole or of any part in order to develop and maintain a spirit of co-operation.

The larger a business is, the more necessary it is that executives in one department understand thoroly the co-operative relation of their department to other departments.

Just where the collection department fits into a business organization is something that every executive must know. The collector's work supplements and supports that of the credit man. The credit man, in checking the credit, must necessarily get a close-up viewpoint of the salesman's problem. From this viewpoint he may accept an account, realizing when he does so, that its collection will require close attention. Both credit man and salesman are interested in the success of the collector's effort to collect this account if it is not paid promptly when due.

Both the credit man's and the salesman's records are influenced by the collector's work, particularly the credit man's record. As a rule, in fact, the credit man controls collections, which are so vitally affected by his work as credit man.

The Psychology of Collections. Success in all executive work rests upon a correct and complete conception of the problem in hand. To get the money and keep the debtor's good will if possible, is a commonly expressed definition of the collector's problem; but it is not a complete conception of his problem. In order to attain that aim, the collector needs to understand the psychology of the debtor. If he does not have a good conception of the debtor's mental processes—his feelings and motives—the collector's work is likely to fail. Deep and true knowledge of human nature, and of the human nature of the individual debtor in each case, is just as important in collecting as it is in advertising and selling. Executive Manuals 8 to 16, which cover the principles of psychology, are of vital importance to collectors of overdue accounts.

There are definite states of mind incident to maturing and lapsing obligations which, if recognized and acted upon, simplify the collector's problem.

Most men are inclined always to be honest. Nearly all debtors incur obligations with confidence in their ability to pay and with the intention of paying.

If their confidence in their ability to pay rests upon the possession of tangible assets—good prospects of proceeds from sales, or property that is convertible into cash, or good collectible receivables—they will be able to pay promptly. But if their confidence rests upon untried experiments or upon erroneous estimates of sales, or any intangible asset that may or may not be available for liquidating the debt, then, of course, the account may turn out to be one that needs close watching by the col-

lector, especially so when an account develops to the point where there is little or no margin of safety.

The Debtor's Mental State When Debt Was Incurred.

There is great value to the collector in knowing the debtor's mental state when the debt was incurred. His failure to pay the debt when due proves that there was an error in judgment, probably chargeable to both the credit man and the debtor. Possibly the debt was contracted without proper consideration of the element of time involved in selling merchandise. Previous leniency on the part of the creditor may have caused assurance of future indulgence in the mind of the debtor. Therefore, whenever his sales do not easily enable him to comply with the stipulated credit terms, he expects to be dealt with leniently by the creditor.

It is well for the collector to remember that—

If the failure to pay is found to be caused by an error of judgment in contracting the obligation, or by a change of conditions that could not reasonably have been foreseen, the attitude and procedure of the collector should be so shaped as to take these facts into consideration and to assist the debtor in recovering from his embarrassment.

If, however, failure to meet an obligation when due comes merely because the debtor is disposed not to feel obligated by the credit terms—perhaps feeling that he has the right to readjust maturity to his own convenience—then the collector should not hesitate to insist on his rights. If the debtor incurred the obligation without having in view any definite source of funds with which to pay the debt when due, then the collector's procedure should be shaped, perhaps, along drastic lines, to effect full and quick payment. He should at the same time work to bring about a reawakening of the debtor's respect for terms, instilling in his mind the importance of considering ways and means for payment before he contracts an

obligation, not after the account has matured. It is apparent that—

Efficient collecting begins with the proper granting of credit; difficult collections should, so far as at all possible, be eliminated at their source—when debts are incurred.

This means that the credit man must determine with all possible care that there is a good basis for credit as previously explained, and then in addition he must be certain that the prospective debtor fully understands the terms of sale and the necessity of abiding by those terms. The debtor must know definitely whence the funds will come for paying the debt when due. It is true that when credit granting is efficiently handled, collections, apart from exceptional circumstances, should not be difficult.

The Debtor's Mental State After Debt Is Incurred. The collector should also consider the state of mind of the debtor at various stages after maturity of his obligation.

A close psychological study of debtors in general usually discloses a stage of mental unrest, even discomfort, which affects nearly everyone who owes money. This stage of mental unrest begins shortly before the maturity of the obligation if the means for payment are not at hand; and it is most acute at maturity. It then gradually wears away, so that within a few days after the acute stage of agitation is over, the thought, or even a reminder, of the obligation does not worry the debtor as much as at the time of maturity. Therefore—

Collection pressure brought to bear during the acute stage of unrest, reinforced as it is by the debtor's mental state, usually causes him to bend all his energy toward paying the debt immediately or in the near future.

The collector, having in mind this mental unrest at maturity, must be certain the debtor is unable to pay before he considers changing the time of payment to a later date. Debtors accustomed to ignoring terms can

at this acute stage be most effectively impressed with the importance of preparing for payment at maturity. But even with the prospect of no further leniency, this unrest is likely to be less acute at a second maturity, and will probably become less distressing with each succeeding postponement. Recognizing this increasing tendency to indifference, it must be remembered that—

Debtors must be strongly impressed with the fact that any extension of terms is a very special concession, and that when the obligation again matures, it must be met promptly.

The collector should anticipate and forestall any probable excuses that may be offered at the expiration of an extended period as a reason for further leniency—as by leading the debtor himself to fix the term of extension and by letting him tell how he will accumulate the funds necessary to pay off the obligation. If his expectations are unreasonable, he can be led to realize that fact, and a better arrangement can be made to bring about his ability to pay at the right time.

The Collector's Mental Attitude. While considering the psychology of the debtor both at the time of contracting the debt and at its maturity, the collector should give thought to his own frame of mind, so that he may not unconsciously shape his approach and procedure along lines that will tend to develop antagonism or carelessness; for the wrong mental attitude on his part will make the attainment of his objective—to secure payment and retain the debtor's good will—more difficult and expensive.

One important phase of his mental attitude is that—

A collector need not be, and in fact should never be, apologetic.

He has the right to take the attitude that those who fail to pay a debt when due intended to pay and had prepared to do so at that time. The collector can conscientiously frame his first polite reminder on the as-

sumption of an unusual occurrence, such as a delay in the mail or a casual oversight.

After the collection process has been set in motion, the collector's insistence on payment will vary in tone according to the nature of the debtor's response, or his failure to respond; also, on a review of the original basis for granting credit in the case, and on a tracing of developments in and around the debtor's affairs down to date.

The collector cannot be too careful in checking his own mental attitude toward the debtor at all points in collections. The methods he uses as well as the results he obtains will largely reflect his true mental attitude toward the debtor. He needs to be conscious all the time of the fact of the variance in his mental state. He must never, for example, express any doubt that the debtor will pay what he owes. In difficult cases, he wants the debtor to feel that he must pay.

ANALYSIS OF DEBTS

Debts are incurred for various purposes. The collector wants to know why the debt was incurred, because this may make a difference in the way he should handle the collection. The cause of incurring a debt naturally has a decided bearing on the ability and preparedness of the debtor to pay.

Wherever a collection requires attention more elaborate than a simple presentation of claim, the cause of the debt should receive consideration in deciding on the plan of collection.

Where the debt has been incurred in the purchase of merchandise or commodities for resale, the collector would like to know the extent to which resale should have been and actually has been effected. He should, however, beware of giving the debtor grounds for urging unsold goods as an excuse for delay in payment. He should avoid giving the debtor any rights or options other than those stated in the original agreement as to terms.

But failure to sell goods which were purchased to be

resold may justify a degree of leniency, particularly so if the debtor has made a worthy effort to resell them. Under such conditions, leniency tends to promote a feeling of good will on the part of the debtor and often leads to increased sales in the future.

The probability of resale in the light of general demand, season, environment, and of other conditions is likely to have been considered in granting the credit. It is well for the collector, however, to make sure that no error was made in estimating the resalability of what was purchased, and to readjust any mistake that had been made. Where other resources for payment are lacking, and where the resale cannot be accomplished thru the granting of further time to the debtor, the goods may frequently be repossessed and the loss minimized in that way.

Debts for Acquiring Operative Equipment. Debts incurred for machinery, equipment, or other operating facilities must be considered from the standpoint of their profitable use in production. Only slight consideration can usually be given to their repossession value. If repossession is contemplated, depreciation and the resale value are fully considered. But credit is granted and collections are usually made without any allowance for possible repossession.

Debts for Business Expense. A debt incurred for meeting business expenses, a debt that is not incurred for acquiring tangible assets, must be considered in its bearing on the profitable use of working capital. Payment depends upon profits realized from the articles produced or converted, as financed by the borrowed funds.

Debts for Personal Expenses. A debt incurred for paying personal expenses, such as payments for food, clothing, and amusement, is money used for something that has no repossession value and also does not directly facili-

tate the earning of profit. Payment in such cases must be made from capital or from current earnings of the debtor. If the debtor possesses property of some kind that is convertible into cash, this may if necessary be ultimately liquidated to pay off the debt. But if ability to pay depends entirely on current earnings, collection may hinge altogether on the collector's persistence—unless it is possible for the collector to reach the debtor's money or goods in the hands of some third party by process of garnishment. This process is explained in the major section on legal problems.

Debts for Capital Outlay. The collection of indebtedness incurred in the purchase of real estate and other capital investments may rest upon either the convertibility into cash or the use or operation of the property in connection with which the debt is incurred.

Liquidation in such cases is usually a slow and tedious process involving many legal formalities and proceedings. Such property frequently shrinks to but a fraction of its previous value if foreclosure proceedings are necessary. It may suffer from a temporary depression occasioned by adverse trade conditions which may warrant deferring final liquidation even if it is necessary to buy in the property and hold it until general conditions have become more favorable.

Debts against Merchants. Where the debt is incurred in purchasing merchandise for resale, a collector should look first to the particular merchandise represented by the account, then to other merchandise handled by the debtor.

If the original merchandise is unsold, it may be necessary to wait until it is sold or give constructive suggestions to assist the debtor in converting it; if the merchandise has already been resold, but on credit, the collector should urge the debtor to make his collections, or make suggestions that will assist him in doing so.

The General Principle Involved. In the case of debts for equipment, for business expense, or for any of the other numerous purposes for which debts are incurred, the collector should start from the cause of the debt and trace thru all possible connections for a means of liquidation.

Knowing the cause of the debt and the source from which means for liquidating it must be derived, is the basis of constructive collection procedure.

The Limitations of Terms. In collections, the word "terms" has reference primarily to the length of time for which the credit extension is to run. But the form in which a record or acknowledgment of the debt stands may also be embodied in the meaning of terms.

The obligation may rest on a simple record called an "open account," or "ledger account"; or it may be evidenced by a note or some other document or documents signed by the debtor.

Terms on staple commodities are usually short; consequently, there is usually no advantage in employing an evidence of indebtedness more formal than the open or ledger account. But where the debt is incurred in the purchase of machinery or of some seasonal merchandise sold on longer terms, it may be desirable to provide for the closing of the obligation by note or trade acceptance. This note or acceptance is not only an acknowledgment over the debtor's signature, but it is also a tangible asset that may serve as security for a bank loan or may be sold or discounted.

Clear Understanding of Terms. The terms of payment should always be definitely understood and agreed upon by both creditor and debtor.

A large percentage of collection difficulties and slowness to pay is the direct result of ignorance or misunderstanding of terms on the part of the debtor.

When the terms are clearly defined and understood,

there should be no occasion for the creditor to demand payment or even to remind the debtor of a pending or past maturity. Debtors, however, do fail to pay to such an extent that it has become common practice to send periodical reminders (generally monthly statements) showing the terms allowed to all debtors who buy on open account. On notes or similar obligations, a simple notice of maturity is sent a short time before the obligation falls due.

Where the terms applying to each transaction are definitely stated, the start toward effecting collection is simple and unlikely to develop friction or dispute.

Where similar transactions between the same parties or covering the same commodities are frequent, so that terms become standardized by custom, the practice of referring to them as "regular" has become common. This practice is a convenience, but it affords an opportunity for disagreement in certain cases, particularly where different commodities carrying different terms are embodied in one transaction or where for some reason an exception to regular terms has previously occurred between the parties.

Then, too, in many important lines, terms are not standardized. A manufacturer or producer with ample capital may consider it advantageous to participate in financing the purchase, for use or resale, of his product by extending more liberal terms than would be practicable for a concern of smaller capital. Moreover, in certain communities terms are sometimes very loosely construed and are likely to mean no more to the debtor than "his convenience." In such cases about the only procedure open to the collector is to assume that a reasonable time has elapsed—and to demand payment. If he fails to get satisfactory returns on that basis, he should then endeavor to reach an agreement with the debtor as to maturity. But—

The collector should use his influence to the utmost to break up any loose practice as to terms; he should insist either on a standardization of terms so far as the trade of his house is concerned, or, if standardization is not practicable, on a specific agreement with regard to the terms on each transaction.

The collector is interested in terms, not only on account of the desirability of being sure of his ground, so as to avoid disputes with debtors, but also on account of the psychological and financial bearing that such factors as short terms, long terms, and maturities at logical times or seasons seem to have on financing both his own business and that of the debtor.

It may be necessary for large concerns doing a widely scattered business to standardize their terms for all, or at least for a great majority, of their customers, leaving it to the collector to make the few modifications that may be found necessary in handling individual cases.

With smaller concerns, however, and particularly those doing business within a restricted territory, collections may be materially facilitated by adjusting the terms at the time of sale, so that maturity coincides with the debtor's time for realizing payment for his own products or efforts. This, of course, implies a policy of flexibility in terms allowed to various classes of debtors and under various conditions.

Let us now, in Part II, consider the effect on the collection problem of the various forms of evidence of indebtedness, such as open accounts, secured accounts, notes, etc.

FUNDAMENTALS OF COLLECTIONS

Part II

EVIDENCES OF INDEBTEDNESS

A DEBT incurred by a simple order for goods may be evidenced only by the bookkeeping records of the buyer and seller, or it may be evidenced by something more formal. The form of the recorded evidence, or certification, of the indebtedness is usually specified in connection with the terms and is considered a part of them. An executive should be familiar with the various forms of the evidences of indebtedness, both for business and for personal use. We shall briefly consider these evidences of indebtedness in this part of our training service.

The Open Account. First, let us remember that—

In the ordinary commercial order for goods, the form of the evidence of debt is often not stipulated; then the simplest form, the open account, is understood, unless custom in that line of business decrees otherwise.

An open account—sometimes called a ledger account—is a simple, abbreviated record, or memorandum, of the fulfilling of a contract or order of purchase; it usually consists of the name and address of the debtor, the date of the transaction, the terms, and the amount. This record may be kept by the seller in a bound or loose-leaf ledger or on a card in a card file.

The validity of an open account rests on an invoice, which gives, in addition to the data carried to the ledger record, numbers, description, weights, or other matter necessary to fix the identity of the articles sold and delivered, and also the essentials of the contract, such as price and terms of payment.

This invoice, where delivery of the goods has been

made by common carrier, is usually accompanied by a bill of lading, or other evidence of delivery to the carrier, and mailed to the purchaser, who is now the debtor. The validity of the invoice and the bill of lading both rest on the original memorandum, order, or contract, which, of course, constitutes the evidence of the sale.

A very large portion of sales are made on open account.

Secured Accounts. Where for any reason the seller or creditor requires security or guaranty of payment of an open account other than an implied promise to pay, an agreement as to security is embodied in the contract of sale or in a supplemental contract or in the correspondence connected with the sale.

Where this security is personal—that is, where it is an agreement on the part of a third party to pay in case of failure to pay by the principal debtor—the evidence of security is usually a more or less formal written obligation signed by the third party. In some cases it takes the form of a simple letter from the guarantor to the creditor, stating that the guarantor will insure payment of the obligation. A simple and effective form for such a guaranty is shown in Figure 1.

Legal Precautions Relating to Guaranteed Accounts. When a seller or creditor accepts a guaranty of an account by a third party, he must be sure that the necessary legal precautions are taken. For example, the statute of frauds as generally adopted in the United States, provides, among other things, that no action shall be brought upon any special promise to answer for the debt of another person, unless the agreement upon which such action is based is in writing and signed by the party against whom the action is taken. Furthermore, this written agreement must be supported by a sufficient consideration. If the contract between the creditor and the debtor was induced by the guarantor's promise to the creditor, then the guarantor's written agreement is valid.

But if the guarantor's promise to the creditor is subsequent to the creation of the debt, some definite consideration must be stipulated or the promise is void. This and

GUARANTY

To

Please sell and deliver to.....

of....., on your usual credit terms, such goods, wares, and merchandise as he (or it, or they) from time to time may select, and in consideration thereof I hereby guarantee and hold myself personally responsible for the payment at maturity of the purchase price of all such goods, wares, and merchandise so sold or delivered, whether evidenced by open account, acceptance, note, or otherwise. I hereby waive notice of acceptance hereof, amount of sales, dates of shipment or delivery, notice of default in payment, and legal proceedings against the purchaser.

This is intended to be a continuing guaranty applying to all sales made by you to said.....from this date until the same is revoked by me by letter dispatched by registered mail, and a registry return receipt for said letter shall be conclusive evidence of receipt of notice of revocation.

Witness my hand and seal this.....day of 19.....

..... (L. S.)

Address:

.....

Figure 1. Evidence of guaranty. In this form of guaranty (strictly speaking, it is a contract of suretyship) the guarantor waives notice of (1) acceptance of the offer of guaranty, (2) amount of sales, (3) dates of shipment, (4) delivery, etc. In the absence of such waiver, the guarantor would not be liable unless notified that goods had been shipped pursuant to the terms of the offer.

other legal points of great importance in executive training are fully covered in the final section of this training service.

Security by Mortgage. If the security is by mortgage,

it is customary to use notes as evidence of indebtedness, the notes being secured by the mortgage. If the credit account is to be continuous and changing in amount from time to time, the mortgage may be connected with the running account by stipulation in the mortgage itself, apart from the use of notes.

Notes as Evidence of Indebtedness. When notes are used as evidence of indebtedness, their most prevalent form is the plain note, sometimes called a "note of hand." These notes are frequently made in connection with ordinary transactions covered by invoice and open account; they are added evidence of indebtedness; when used, they are said to "close the account by note."

Notes themselves are the original document of record in transactions involving the loan of bank credit or other loans of money.

The usual form of plain note consists of address; date; promise to pay to the creditor, or his order, at a specified time and place; the amount covered by the transaction with interest; and the signature of the debtor. Figure 2 shows a familiar form of plain note in blank.

\$.....	Chicago, Ill.....	192..
.....	after date for value received.....	
promise to pay to the order of.....		
the sum of.....	Dollars,	
with interest at the rate of.....	per cent, per annum after	
.....		
Payable at.....		
No.....	Due.....	

Figure 2. An ordinary or plain personal promissory note.

Title Notes and Judgment Notes. The plain note may be, and frequently is, elaborated by special agreement with

respect to the payment of attorney's fees in case suit is necessary, and by other agreements exacted by the creditor. Such agreements most frequently used in notes are—

1. Retainer of title to articles for which the note is given, called title notes.
2. Provision constituting the holder the agent of the maker with power to confess judgment in case of default, called judgment notes.
3. Provision, in notes issued in series, under which default in payment of any one note in the series matures the succeeding notes of the series.

Such provisions do not affect the negotiable character of a note. It must be borne in mind, however, that some of these special agreements are illegal in some states and that they are restricted in others; hence, such forms should not be adopted except under legal advice. Figure 3 shows the form of a judgment note.

Special provision for assuring payment is more prevalent in connection with notes than with open accounts. Such provision, called security, occurs in numerous forms, which vary in significance and call for collection treatment according to the custom and the law appertaining to each case.

The Trade Acceptance. Since the inauguration of the Federal Reserve System, the use of the trade acceptance has grown as an evidence of indebtedness. (The trade acceptance was illustrated and described in the previous section of this training service on financing a business.)

In some lines and under certain conditions, there has been an effort to extend the use of trade acceptances to cover short-time transactions in staple commodities. As a rule, however, the tendency is to restrict the use of the trade acceptance to such transactions as cover items of considerable value, and where the time element is sufficiently extended to make it desirable to place the account in shape for discounting at a bank or for use as collateral security for loans. Furthermore, the trade acceptance is

not, as a rule, employed in extending longer time than was originally contemplated in the transaction; its use is restricted to the terms and conditions as originally provided.

JUDGMENT NOTE

\$.....

.....19....

.....after date for value received.....

promise to pay to the order of.....

dollars, at.....with interest at...per cent

per annum, from and after date, until paid. And to secure

further the payment of said sum,authorize, irrevocably,

any attorney of any court of record to appear for.....

in said court, in term time or in vacation, and confess judg-

ment without process in favor of the holder of this note for

such amount as may appear to be unpaid thereon, hereby

expressly waiving all benefit under the exemption laws of

.....with costs and 10 per cent attorney's

fees, and to waive all errors in any such proceedings, and to

consent to immediate execution upon such judgment, hereby

ratifying and confirming all that.....said attorney

may do by virtue hereof.

Signed.....

Figure 3. A judgment note. These notes are in common use in a comparatively small number of states. The majority of the states have statutory requirements for the entry of judgment by confession which preclude the use of notes of this type.

The chief difference between the trade acceptance and the ordinary note is that the trade acceptance states in the instrument itself the nature of the commodity and the transaction which it represents.

CONSIDERATIONS AS TO SECURITY

The simplest form of security is that known as “personal,” and is evidenced by the signature of one or more

persons (other than the maker), who thereby become sureties or guarantors for the debt. The additional signature or signatures may be written on the face (not the back) of a note under that of the maker, in which case they should be designated as "sureties." If not so designated, the signatures are usually understood to be those of "co-makers." When additional names are written across the back of the note, the persons so signing are then known as "indorsers" or "sureties by indorsement."

An indorsement may be complete, consisting of the signature of the indorser, without any qualifications; or it may be qualified by limitations written or printed either on the back above the signature or on the face in the body of the note above the signature of the indorser.

Legal Facts about Indorsements. An indorsement of the note in blank by the original payee (the one to whom the note is made payable) makes the note payable to bearer; or a third party may be specifically named above the indorsement, to whom the note is made payable. The indorser is bound as surety for the payment of the note to the legal holder in due course, unless his indorsement is preceded by the words "without recourse."

The holder of a plain indorsed note can, after making legal demand on the maker, enforce payment from a transferring indorser, leaving it to the latter to proceed against the maker or prior indorsers, if there are any.

The relation of maker, payee, and indorsers of notes is covered by various statutes in greater or lesser detail, and the holder should see that all collection procedure conforms strictly to the requirements of such laws in the several states, so that the rights of all parties at interest may receive the protection contemplated. Brief tabulated digests of these laws revised from time to time may be procured as quick reference guides upon these questions, but all important cases should be referred to legal counsel before action is taken.

Notes Secured by Collateral. A common method of securing notes is by collateral, which may consist of bonds; certificates or stock; notes by other makers, secured or unsecured; warehouse receipts; or other negotiable documents representing value, deposited with the payee or holder of the note—or with a trustee—as security for its payment.

The conditions under which collateral security is deposited and held are generally covered by a special contract embodied in or attached to the note so secured, or by a separate contract or receipt. In either event procedure should follow lines sanctioned by custom and law. Figure 4 illustrates a collateral note, which embodies an agreement on conditions under which the collateral security is pledged.

When notes are pledged as collateral security, they are usually placed in the hands of the pledgee; that is, the one to whom the notes are pledged as security. It is the holder's duty to collect interest payments due on the collateral notes he holds and on all other collateral; and also to collect partial payments, if any, and the principal itself at maturity. He should take all the legal steps required in such cases, notify indorsers, and do everything that a holder in regular course would do to secure payment. He may even sue for any payments due on a note held by him as security.

Amounts collected on collateral notes, less expense of collection, should be indorsed on the principal note until this principal note is paid in full with interest. After liquidation of the principal note, the residue, if any, from collections on the collateral notes are turned over with the canceled principal note to its maker.

In case the note secured by collateral is not paid at or before its maturity, the payee may either proceed personally against the debtor on the original debt or procure satisfaction by enforcing the pledge by the sale of the

No..... Due.....
\$...... Chicago, Ill.....192...

..... days after
date, for value received, I promise to pay to the order of
CONTINENTAL AND COMMERCIAL NATIONAL BANK
OF CHICAGO, at its office,.....
..... DOLLARS,
with interest at the rate of 7 per cent per annum after ma-
turity until paid.

Sign here (also below).....

The undersigned has deposited with said Bank, as collateral security for
the payment of the above note, and of every other liability or liabilities,
either direct or contingent, now owing or which may hereafter be owing,
whether now or hereafter contracted, of the undersigned (including all lia-
bilities of any partnership created while the undersigned may have been
or be a member thereof) to said payee, or to the legal holder thereof, the
following property, viz:

.....
.....
.....
.....
With the right on the part of the said Bank or the legal holder hereof
from time to time to call for additional security of such kind and value as
will be satisfactory to said Bank or the legal holder hereof, and on failure
to respond, or if in the judgment of said Bank, or the legal holder hereof,
said security, or any additions thereto or substitutes therefor or any part
thereof, shall have depreciated in value, then the whole of the above note
shall be deemed immediately payable at the election of the said Bank or
the legal holder hereof, with full power in said Bank, or the legal holder
hereof on maturity thereof, either by its terms or by election as aforesaid,
or on the non-payment of any of the other liabilities above mentioned, to
at any time, and from time to time, sell, assign, and deliver the whole of
said property and all additions thereto and substitutes therefor, or any
part of said property, additions, and substitutes, at any public or private
sale, at the option of said Bank, or the legal holder hereof, and without
advertising the same and without notice to the undersigned, and with the
right of said Bank or the legal holder hereof, to be a purchaser at any
public sale or sales; and in the event of any sale or purchase hereunder
no matter by or to whom made, all notice thereof, and any and all equity
or right of redemption, whether before or after sale hereunder, is hereby
expressly waived; and, after deducting all legal and other costs and ex-
penses, including reasonable attorneys' fees, from the proceeds of such
sale or sales, to apply the remainder on any one or more of said lia-
bilities, whether due or not, as said Bank or the legal holder hereof shall
deem proper (making rebate of interest on any demands not matured),
and return the surplus, if any, to the undersigned. Said Bank or the
legal holder hereof, may at its, his, or their discretion enforce the col-
lection of said security, additions thereto, and substitutes therefor, by
suit or otherwise, and may surrender, compromise, release, renew, ex-
tend, or exchange all or any of the same. Said Bank or the legal holder
hereof is hereby authorized and empowered at any time to apply to the
payment of any liability, or liabilities, whether the same be due or not,
of the undersigned, to said Bank, or to the legal holder hereof, (in-
cluding any liability or liabilities of any partnership created while the
undersigned may have been or be a member thereof), whether the same
be due or not, all property real and personal, of every kind and descrip-
tion, including balances, credits, collections, moneys, drafts, checks,
notes, bills, or accounts (whether on hand or in transit) of the under-
signed.

Sign here (also above).....

ADDRESS.....

Figure 4. Collateral note, with agreement as to conditions under
which collateral security is pledged.

collateral pledged, in accordance with the terms of the contract.

Realizing on Collateral Security. The sale of collateral may, as a rule, be made without a judicial decree. Stocks so pledged are usually assigned in blank and may readily be transferred to any purchaser. The pledger frequently waives notice of sale and of any particular method of sale. But the sale should be made in such a manner as to secure the best price; therefore a public sale is often more desirable than a private sale.

The proceeds of the sale are applied directly to the payment of the debt. The pledger is charged with any deficiencies or credited with any surplus should the proceeds from the sale be less or greater than the amount of the debt. But always—

Where foreclosure and sale of collateral become necessary, great care should be exercised as to formalities required by law, which vary in different states.

Mortgages As Security. Notes are frequently secured by a mortgage on personal property or on real estate, or on both.

A mortgage on personal property (chattels) is called a chattel mortgage. It conveys to the creditor the legal title to the chattels, to be held by him as security for the payment of a note or notes. The chattels mortgaged and the debt secured should be accurately described in the mortgage; and the note or notes should contain a reference to the mortgage.

Or the mortgage may be a transfer of title to such property to a third party as trustee, authorizing him in case of default to convert the property into cash with which to pay the principal and interest due and the expenses incident to the work of the trustee. What remains of the proceeds of the sale of the mortgaged property, if anything is left, goes to the mortgagor.

The important points to watch in accepting a chattel mortgage or in negotiating a chattel trust deed are—

1. To have a careful detailed description of the article or articles covered, so that it or they may be easily identified.
2. To have a complete description or copy of the note secured.
3. To have full provision for foreclosure in case of default.
4. To make sure that these provisions conform to statutes covering such documents, and that the filing or recording thereof in the office of the public recorder or magistrate is done as required by law.

Mortgages or trust deeds against real estate are similar in provision to those on chattels except that they are more formal as to form and requirements with regard to record and release. These matters are more fully treated in the final section of this training service.

Possession of Mortgaged Property. Under mortgages and trust deeds, both chattel and real estate, usually possession and use of the property pledged remain with the mortgagor until default and formal possession is taken by the mortgagee or trustee or some agent representing his interest under form and process of law.

Collection of obligations secured by these or other special means for guaranteeing payment follows a procedure similar to that applying to unsecured debts; however—

In taking possession of mortgaged property, great care must be exercised to preserve the legal status, so that enforcement against the security, if necessary, may not be jeopardized.

Extensions of Accounts and Notes. In collecting accounts or notes, it sometimes becomes necessary or advisable to grant an extension of additional time. As consideration for such extension, security is frequently tendered or exacted even tho it was not previously required. In making extensions on items previously secured, additional or more desirable security is often required or given.

It is good practice to obtain additional security in extension cases even where there is little danger of ultimate loss on the existent security, or even of the necessity for enforcement against the security, because a debtor will usually begin earlier and exert himself more continuously to provide for prompt payment of a fully secured debt, than for a partially secured or a wholly unsecured obligation.

The debtor, when the security he puts up is ample to cover the debt, is confronted not only with prospects of a loss of prestige and credit standing but also with the expense of foreclosure and possible loss in the forced sale of the security he pledged.

In all agreements for the extension of time or change of terms, particularly in the case of secured claims, great care should be exercised in order to have the agreement conform with the legal requirements of a binding contract, especially as regards the factor of "consideration." This, too, will be fully explained in the final section of this training service. Here the main point to keep in mind is that ample security means not only freedom from risk of loss but also the probability of prompt collection without the necessity of extensions or foreclosure.

Let us now, in Part III, cover some of the practical points concerning the relation of debtor and creditor, which will pave the way for full realization of our training in practical collection procedure as covered in Executive Manual 55.

FUNDAMENTALS OF COLLECTIONS

Part III

DEBTOR AND CREDITOR RELATIONS

A CREDITOR has a legal and moral right to that which is due him.

In good faith he has transferred property or money or has rendered a service to the debtor; and he has accepted therefor, in lieu of immediate payment, a promise to pay—either a verbal or a written or an implied promise to pay at a time specified; or, if not specified, at a time established by custom in similar transactions.

In case of failure to pay by the time payment was promised, the creditor has the right to demand payment; and, in the event that payment is not made within a reasonable time, he may enforce his claim by legal process against the debtor.

An efficient collector always takes the stand that—

The right to collect a debt that is due is so just and reasonable that he should have no feeling of hesitancy or apology in pressing his demands.

He handles each case on that premise. If concessions or extensions are made, the debtor is led to realize that they are made to serve directly the interest of the creditor, or are extended as a special favor to the debtor. In every case, the collector makes clear that any concessions or extensions of time are special and are out of the ordinary run of affairs—not to be expected as regular treatment.

MODIFICATIONS OF PROCEDURE

In practice, very few creditors or collectors exact the "pound of flesh." Instead of demanding payment, they politely invite attention, and, where additional time is asked, they give careful consideration to the debtor's ex-

planation as to the cause of his proposition for advancing the date of maturity.

If, as sometimes happens, the creditor himself is short of working capital and would suffer considerable loss by granting an extension, the collection may have to be forced regardless of the effect on the debtor and his business. But apart from absolute necessity, this action is rare. Few creditors care to appear in the role of oppressors. Forced collections are particularly undesirable where the collector is dealing, in large measure, with regular customers upon whom the sales department depends for its volume of sales.

The relation between debtor and creditor is greatly influenced by probable future transactions. It is often profitable for both debtor and creditor when a credit arrangement is made that offers greater convenience to the debtor with no serious hardship to the creditor. But if readjustments are based only on flimsy pretexts, the relationship is weakened—and the debtor is tempted to distort his privilege by demanding whatever concession may suit his convenience. The debtor who persistently makes such demands, however, may cause a withdrawal of credit, not only by that creditor, but by others as well.

The creditor who encourages unreasonable demands from debtors by tolerating them, thereby contributes toward developing an irresponsibility which adversely affects the entire business community.

Recognition of Creditor's Rights. The correct, the popular, the practical, as well as the ethical attitude for the creditor to assume is, first, to expect and then, if need be, to demand his rights. Then, if a debtor's desire for leniency is reasonable and well founded, the creditor may exert his further right to modify his demands, and thus soften a hardship brought, perhaps, by the ignorance of the debtor, or by his miscalculation as to future income, or by change of conditions over which the debtor had no direct control. Such a modification of the creditor's de-

mands may be expedient as a means of protecting his own interest or it may be purely an expression of good will toward the debtor. But a collector of accounts due should not lose sight of the fact that he has an inherent right to payment; nor should he permit the debtor to lose sight of this fact, because stability of credit rests on recognition of the right of the creditor to expect promptness and to dictate any modifications of an original agreement to pay after the debt has matured.

The collector should never let a debtor put him on the defensive; he needs no excuse for insisting upon payments of accounts past due.

The efficient collector knows that the debtor who from bad judgment, carelessness, or ignorance, habitually contracts obligations he cannot pay promptly at maturity is a demoralizing influence in the business world. In many cases, the only way such a debtor can be brought to a more businesslike and equitable relation with his creditors is by forcing him to promptness, or by withdrawing entirely the privilege of further credit. This action in such cases does not curtail the volume of sales in the long run,*but does tend to keep sales in the better and more profitable channels. Furthermore, this action does not foist any undue hardship on the slow-pay debtor; rather, it may either stimulate him to improve his business practice or drive him out of one line of business into another in which he is better fitted to succeed or where the opportunity for his success is greater.

Knowing Sources of Funds for Payments. In collection cases where more than first or preliminary steps are necessary, it is often profitable for the collector to make a close investigation and study of the debtor's environment, particularly a study of the situation with regard to the source from which the debtor must secure funds with which to pay.

It is true that if this study had been made at the time the debt was contracted in any case, the terms could

probably have been arranged so as to avoid embarrassment—or the granting of credit could have been deferred or declined.

The wise applicant for credit looks forward, when he contracts an obligation, to the source from which he can reasonably expect to receive funds for the payment of the particular debt that he is contracting; he also considers the payment of other obligations already incurred, or to be incurred, and he makes due allowance for unforeseen contingencies and for general fluctuations in economic conditions which may either favorably or unfavorably affect his incoming funds.

If all credit applicants would thus look forward and have definite prospects of income to take care of each debt contracted—if all credit men would insist on this—the work and expense of making collections would be largely reduced to a simple routine procedure. Of course, there would be some miscalculations concerning future income. An important problem of the credit man is to cut down the percentage of such miscalculations. The collector has this same problem in arranging for further extensions of credit. It is, in fact, very important that—

In arranging for extensions of time on overdue accounts, the most careful consideration must be given to the matter of definitely determining the source of funds with which the debt will be ultimately liquidated.

Furthermore, the collector must have a definite understanding that the funds from this source will be used in liquidating the debt in question.

Seasons in Relation to Collections. Let us now consider the fact that in many lines of business and in most localities, business activity undergoes seasonal variations. Even in cases where business activity is quite uniform thruout the year, there is likely to be considerable fluctuation in the proportions of cash and credit transactions and in the collection of credit items.

By a study of seasonal business activities in general in the debtor's neighborhood, the collector of retail or wholesale accounts can often judge whether or not the reason given for failure to pay is correct. In an agricultural community engaged largely in raising small fruits, for example, money should flow freely during the summer months, except where the crops have been blighted by bad weather. Where wheat and other small grains predominate, late summer and fall should be the best collection season. Where corn is the main crop, the late fall is best if the crop is sold, or early winter is best if the crop is largely fed to hogs; if corn is fed to cattle, later winter and early spring are the best collection seasons. Cotton goes to market in the late fall. The principle that applies to seasonal fluctuations of income is that—

Collections should be pushed hardest at those seasons of the year which mark the heaviest inflow of funds to debtors.

Manufacturing in many lines and employment for mechanics and laborers—particularly outdoor workers—also fluctuate with the seasons. A collector needs to know what are the seasonal variations in the income of debtors, so that he may avail himself of the opportunities for favorable results.

If the collector finds that a debtor has incurred heavy obligations with others, he will, of course, do well to bring pressure to bear upon that debtor early rather than late in the debtor's season of liquid funds. Competition among creditors for the available funds of their common debtors is a possible factor that is never overlooked by the wide-awake collector.

The Debtor's Financial Condition. Collections depend mainly upon the financial condition of the debtor. This is true whether the debtor be a clerk or laborer earning a few dollars a week, or a merchant, a manufacturer, or other class of business man.

Honesty and good intent alone cannot pay. Neither is it safe to assume that the honest man will not contract an obligation when forthcoming means for payments are uncertain. He may be innocently unaware of his probable inability to pay, or conditions over which he has no control may arise after the debt has been contracted.

In any event, an efficient collector finds out, if possible, what is the financial condition of the debtor.

If he finds that the debtor has funds in hand or in the bank, his problem is reduced to developing ways and means to induce the debtor to pay out those funds. If cash funds are not immediately available, then what assets possessed by the debtor are most easily convertible into cash? Also, what would be a reasonable time for converting those assets into cash? With answers to these questions, the collector can arrange for payment as early as possible. If the debtor has no assets that are convertible into cash, if he depends on returns from his labor or service, collections must, of course, conform to this condition—perhaps arranging for serial payments over a certain number of pay days.

Allowance for Living and Business Expenses. In determining the debtor's ability to pay, the collector usually makes an allowance for certain expenses necessary to the life of the debtor's business or of himself and family, or both. But the collector can and should require definite sums to be paid out of the debtor's income in excess of his necessary operating or living expenses. The collector knows that—

Pressure for payments in excess of net returns from operating a business, where no convertible assets are available, would tend to force liquidation at a loss to the debtor—and to the creditor as well.

The facts concerning the state of the debtor's finances probably served as a basis for the credit when it was extended. But a failure to pay would indicate either that the original information was erroneous or incomplete

or that an unexpected change for the worse has developed in the debtor's financial condition. The collector wants to know just what changes have occurred, so that he may readjust the relationship between him and the debtor satisfactorily; that is, so that he may make arrangements for certain specific payments which are satisfactory without being an undue hardship upon the debtor.

Analysis of the Debtor's Situation. The collector, by analyzing the debtor's financial condition, places himself in a position to determine what collections can be reasonably expected—and, consequently, he can intelligently insist on payments in case the debtor does not willingly fall in line; or, in the rare instances where resort to legal action is necessary, he can take legal action with reasonable certainty of a successful outcome.

Ordinarily, if the collector's knowledge of the debtor's resources in any case is known to be exact, the debtor will agree to the arrangement suggested by the collector. In such cases, the collector can, of course, make an analysis of the debtor's situation in such manner as to convince him of the feasibility of a proposed plan of settlement. This analysis of the situation—especially where the collector co-operates with the debtor in making the analysis—develops in the debtor's mind a better understanding of his problem in meeting his obligations than he could have without the collector's help in making the analysis. Such an analysis should not only enable the debtor to work out of his present embarrassment but also serve to help him avoid similar complications in the future.

In many cases, a collector's analysis of a debtor's situation leads into suggestions on the part of the collector as to how the debtor can collect his own accounts. Some collectors will construct a special set of collection letters to be used by a debtor. (The writing of effective collection letters and telegrams will be taken up in Executive Manual 55, and will be more fully covered in the forthcoming section on business correspondence.)

ANALYSIS OF ACCOUNTS

As over 90 per cent of the collections which require more than a simple reminder are made in connection with the commercial transactions of manufacturers, jobbers, and retailers with their customers, let us first consider the classifications of such accounts as are customarily employed by the collector—leaving exceptional transactions for consideration later on.

Analysis of Wholesale Accounts. Accounts with buyers who purchase goods for resale, whether from manufacturer, jobber, or agent, are commonly called “wholesale accounts.” These accounts are largely against customers located at points some distance from the seller’s place of business, and are generally contracted thru salesmen or agents of the seller who either call on the customer or sell him by correspondence, or by both personal and mail solicitation.

In many cases, the seller has no personal acquaintance with the customer, and even a seller’s salesman or agent may see a customer only at infrequent intervals. There is little opportunity to learn a great deal that is essential in properly opening these accounts. Credit is usually based on published ratings and on reports from the mercantile agencies, supplemented perhaps by inquiry to local banks or other concerns or from individuals acquainted with the customer, and often by statements from the customer direct. The securing of credit facts from these and other sources was covered in a preceding executive manual. The collector as well as the credit man needs to be familiar with all these sources of information.

The value of facts gleaned from such reports is that they enable the collector to tell whether or not one or more of the excuses for nonpayment offered by a debtor are justifiable.

The collector must remember, however, that informa-

tion secured at the time of granting the credit, as carefully compiled as it may have been, is not infallible; and that important changes in the debtor's condition of affairs may come before the time for payment. The purpose which prompted the application for credit, such as the opportunity to sell the goods purchased before payment was due, may not be realized. Thus—

The collector supplements his facts concerning the debtor's past condition with facts concerning his present condition.

In some cases, it is found necessary to extend credit privileges without much regard to the probability of prompt payment. If so, this circumstance complicates the collection problem; it calls for exceptionally well-organized collection facilities and procedure, including a definite routine in gathering the latest facts as to the debtor's financial condition much the same as the routine employed in determining credit worthiness, as explained in preceding manuals.

Encouraging the Taking of Cash Discounts. So much is to be gained by the buyer who regularly takes cash discounts offered by his suppliers, that a collection man can well afford to attempt to promote this habit in his relations with debtors. In fact, an efficient collector takes the view that—

Responsibility for collections carries with it the responsibility for increasing the number of customers whose habit it is to pay promptly and to take cash discounts.

In these days of close competition, the merchant whose business is so inadequately capitalized or so poorly conducted that he cannot take cash discounts on his staple commodities, is operating under a serious handicap and will certainly be subject to embarrassment during the inevitable periods of general or local depression. Happily, as the business of the country develops, it centers more and more in the hands of those best equipped and trained

to handle it. Therefore the ranks of the discounters grow stronger year by year.

The collector finds in discount customers an example of what is most desirable in connection with the more profitable methods of business. He should work as zealously as does the credit man to increase the number of those who take advantage of the cash discounts offered by his house.

Encouraging Prompt-Payment Accounts. Next in order of desirability is the customer who pays promptly at maturity. These customers normally give the collector little trouble. They occasionally require a polite reminder. But simple routine is sufficient in collecting these accounts.

But when periods of depression, either general or local, occur, many erstwhile prompt-pay customers become slow pay. They then call for special handling on the part of the collector.

In proceeding to collect an overdue account against a customer who was previously prompt, due consideration should be given to his good record. The cause of his slowness is in all probability a matter that justifies special consideration. Then, too, he is certain to be less callous than the habitual offender, and is likely to feel a severity in the collector's requests for payment that the collector did not intend to convey—unless the collector handles him with special consideration. In all cases, in fact, a collector should remember that—

Debtors vary individually with respect to sensitiveness, and each, so far as possible, should be dealt with according to his particular degree of sensitiveness toward requests for payment.

That precaution applies particularly to the ordinarily prompt payers. But a collector, regardless of the sensitiveness of the debtor, should always endeavor to find out the true cause of slowness—regardless of whether or

not the debtor is reluctant to state it; for then only can the collection process be carried on intelligently and with due regard for the debtor's feelings in the matter. Then, too, the collector can offer constructive help in restoring a customer to the prompt-pay class only when he knows the true cause of slowness.

If a debtor requires more than the usual assistance, if having had one extension, he asks for a second, he should be checked up very carefully with a view toward detecting the development of a hazard that may possibly be avoided by special handling.

The Slow-but-Good Account. The collector has to handle very carefully all those accounts that are slow pay but are known to be good.

This class of debtors is fortunately far outstripped in numbers by the discounters and prompt payers, altho its number is large enough.

While meriting less, this slow-but-good class of debtors usually receives more consideration. Where the debtor is slow pay just because he knows that the creditor knows he is good for the amount he owes and will therefore not push him—in that case the collector is at fault. The principle to apply here is "fairness to all debtors alike," with discrimination in favor of no one class. When slow-but-good debtors know that this is the principle prompting the collector's insistence on prompt pay, they can usually be brought into the prompt-pay class with little if any loss of good will; in fact, often with an increase in good will toward the creditor, whom they come to respect more as a good business man because he has the courage to apply the "fairness to all alike" principle.

The Chronic Slow-Pay Customer. Many customers of most houses are chronically in the slow-pay class. They report all kinds of convenient excuses for their slowness. Many in this class could pay promptly if they would. Some know this, but are constitutionally disinclined to

pay out money. They must be led to see the advantages in taking discounts. Others are able to pay promptly, but do not think so. They must be led to understand their ability to pay—perhaps requiring enlightenment concerning the value of the lending service of their local banker.

A collector must give special attention to his chronically slow-pay accounts. He must carefully classify them as just suggested and employ the best available means of jolting each kind of slow payer up into the prompt-pay class. That is his most important function, for practically all losses develop from the ranks of the chronically slow pay.

When an account which has been prompt pay falls behind, the collector must investigate to make sure that its fall is from a temporary cause—he should see to it that the cause is temporary, and get that account back on its two feet as quickly as possible. He must not let it become a chronic slow-pay account.

The collector knows that the chronic slow-pay account usually means a weak financial condition—even tho it does show a fair financial statement, and sometimes a statement that is more than a fair one, because, without a good statement, that debtor would probably not be able to obtain credit and would have to go out of business, possibly by the failure route.

Here is where the work of the collector should supplement that of the credit man. If an account starts slow or develops slow, particularly if slowness becomes chronic, the collector should *find out why*. If the answer is inherent weakness or impaired vitality, further credit should be refused, as continued extension would be too hazardous—a sort of bet that the account can be collected before the crash comes.

Of immediate importance in such cases, however, is the collection of the account already outstanding. The col-

lector, if fully advised of a vital weakness and of its cause, can lay his plans intelligently and make progress toward full satisfaction of a debt—altho, as previously explained, he may be required to help the customer back to financial health before he can collect in full; and this may require further extension of credit in co-operation with other creditors.

The Bad Account. With only an occasional exception, the bad account develops from the slow-pay class. The first suggestion that the account may become bad is slowness of payment. Suspicion becomes a certainty after continued failure to meet obligations when due. Salvaging of these bad accounts depends on the early recognition of the facts, followed by an intelligent method of liquidation.

Such are some of the more fundamental considerations that enter into the work of the collector of accounts. Let us next, in Executive Manual 55, complete our training in credits and collections by becoming well acquainted with the practical procedure employed in making collections—first making sure of our groundwork by handling Executive Problem 54, which follows.

CHECK-UP ON PRINCIPLES

Use the following check-up to get the principles of this manual firmly fixed in mind. This will help you to handle the problem which follows. This check-up is entirely for your own personal use, so you need not send it in to the University.

	Check	
	Yes	No
1. Should a collector feel that he is asking for unreasonable action?		
2. "I'll take 10 on the same terms as before," said the customer at the other end of the wire. "All right," answered the sales manager, "10 cases on terms of 5 per cent 10 days, net 60." Did that sales manager co-operate with the collection department?		
3. A dealer who had been granted 90-day terms, and whose account was overdue, wrote, "Your salesman said the merchandise would be sold in 3 months, but I have been able to sell only about half the merchandise so far." (a) If the debtor had the means, should the collector insist on immediate payment? (b) Or was this a good basis for granting an extension of terms?		
4. If the debtor does not have the means of payment, will the wise collector insist on immediate payment?		
5. Is it good management to place the granting of credit and the responsibility of collections within the responsibility of the same executive?		
6. Do you believe that the greater the number of signatures indorsing a note, the more likely the note is to be "good" at maturity?		
7. Is a trade acceptance different from a note?		
8. Is it easier to collect when a transaction is closed by note than when the transaction is on an open-account basis?		
9. Does it do the debtor any good to have an "easy" creditor?		

	Check	
	Yes	No
10. Does systematic promptness in following up accounts receivable react unfavorably on a firm's reputation among the trade?		
11. If a chain of department stores having branches thruout the country standardizes its collection methods so that the same degree of insistence and the same letters are used in each community, can it expect uniform results in every community?		
12. If you were a collection manager, do you think a situation could arise in which you would intentionally grant an extension of time to a debtor who did not deserve it?		

Executive Problem 54

HOW CO-OPERATION AIDS COLLECTIONS

Revealing the Interdependence of Departments

UNDER THE LASALLE PROBLEM METHOD



EVERY division of a business organization should be interested in collections. They form the main source from which funds are obtained to finance future operations, to pay salaries, and to declare dividends. For that reason any co-operation which any department or division can give toward making easy this last step in the cycle of a business transaction should be most heartily given. This executive problem will help you think thru the true relationship of collection activities to other activities of a business concern.



Prepared by the Research and Consultation Staff of LaSalle Extension University from an interesting problem which it has carefully investigated and analyzed.

THE time of sale is the time to settle all matters upon which the buyer and the seller must agree.

That is the time to acquaint the customer with all the conditions of the order so that there can be no misunderstanding later on.

At the same time thought should be given to definite provisions for payment—both seller and buyer should regard the order as the first step in a process which will place sufficient funds in the hands of the buyer to meet the debt at the time it becomes due.

Executive Problem 54

HOW CO-OPERATION AIDS COLLECTIONS

The General Wholesale Grocery Company was a well-known, progressive firm on the Pacific Coast. Headquarters were in San Francisco. In addition there were two branches—one in Los Angeles of many years standing, and another in Portland, Oreg., which was comparatively new. Each had its own office, sales force, and warehousing facilities.

The president of the organization set certain standards for his managers, but allowed them to work out their own policies and means for attaining those standards, since he believed that this helped to build up initiative. The three standards which he watched most closely were inventory turnover, expenses, and collections. If a manager made a poor showing in any one of these three factors, the president usually sent a representative to the branch office to find out what was wrong and to make suggestions to set things right.

When late one Saturday morning, Andrews, the Portland branch manager, received a wire stating that Frazier, the general credit manager, would be in to see him, Andrews knew what was meant. Collections had been slipping the last two months until the percentage of outstanding accounts receivable was 125 per cent while San Francisco stood at 98 per cent and Los Angeles at 101 per cent. Portland, in other words, had 125 per cent of one month's business tied up in accounts receivable; San Francisco, 98 per cent; and Los Angeles, 101 per cent—the standard terms of sale being 1 per cent 10 days, net 30 days.

In the matter of inventory turnover, however, Portland made a very good showing, and the ratio of expenses appeared satisfactory.

Monday morning Frazier arrived, and, sure enough, "collections" was the cause of his visit. For an hour he

was closeted in Andrews' office. Andrews sent out to get the ledger cards, credit pouches, and the most recent invoices on all overdue accounts. Together they pored over this information.

Soon Gray, the branch credit man; Black, the assistant manager in charge of purchasing; Davis, the assistant manager in charge of sales; and Murray, the warehouse superintendent, were called in to join the conference. All knew Frazier—they were all good friends. After the first greetings, Andrews explained the cause of Frazier's visit, and then proceeded:

"I have called in to this conference everyone who, I think, can in any way furnish information bearing on the condition of our collections at present. We are below our standard, and we want to find out what is wrong."

"Let me review a few slow-pay accounts which seem to be typical of all these accounts Mr. Andrews and I have been studying," began Mr. Frazier. "Then I want to get your views.

"Here's Smith, of Astoria, capital \$10,000, first-grade credit, has a good record, a good reputation, and does a good business. We gave him a line of \$600. Now he seems to pay everyone except us. What's the matter?

"Then there's Jones, of Medford. One agency did not rate him at all and the other rated him \$500 to \$1,000, fourth grade. His financial statement showed a net worth of \$2,732. Liabilities were heavy. References were consulted and such comments came thru as "slow," "very slow," "one to four months slow on small credit extensions." We gave him a line of \$50. As to character he was well spoken of, and his location was said to be good. Capacity and capital, however, were lacking.

"Finally we have Brown, of Salem. I know him personally and he has been trading with us regularly since this branch was opened. His capital and credit rating have always been good and he was always good pay until recently. Now he has been running along with about \$285 overdue for some time on a line of \$400. I can't understand it."

"I'm mighty glad this conference was called," said Mr. Gray, the branch credit man. "I know it hits right at my department, but I think we can get a lot of good out of this meeting. I have seen that collections were slipping, and have been working all I could against the trend, but so far haven't made much headway.

"Take Smith there. In plain words, he's downright sore and I can hardly blame him. He has been trading regularly with us and has built up a good business on some of our items. Then just when folks began asking for our brands, our deliveries began to be slow

and he would run out of stock. We got things to him on Monday when they should have reached him the previous Wednesday. You know what that means. He missed out on the week-end business, had a lot of stuff on his hands, and got sore. So now he makes us wait for our money. We'll get it eventually, however, because he's good.

"Jones is a little fellow and I wanted to turn him down, but the salesman assured me he could get the money out of him regularly. He didn't do it, so we are caught. Jones, on the other hand, says the salesman didn't tell him the terms were 30 days. We have too many Joneses on our books.

"The Brown case is peculiar. It seems old man Brown died rather suddenly some time ago, and I didn't find it out until the other day when I got a special report on him. The son is not nearly so good a manager, and that is why collections have slowed up there. If I had known about Brown's death, I would have handled the account differently."

"I can shed some light on the Smith account," said Murray, the warehouse superintendent. "We weren't slow in shipping. We just didn't have the stuff and had to wait until it came in. Our shortage list is long every day, and we can't ship what we don't have."

All thereupon turned to Black, the purchasing agent, who took up the challenge. "That puts it up to me, I suppose. Well, I have been working on the turnover proposition. At one time we were behind the other offices, while now we lead the whole organization in rate of turnover. Our trouble had been that we were carrying too many brands in some lines, so I cut out a few. That has improved our turnover wonderfully, and I think it was a good move. For customers like Smith I purchase special lots, so they ought to be satisfied even tho we are sometimes a few days late."

Davis, the branch sales manager, was the next to speak. "While Smith hasn't bought from us since those slow deliveries, we have a good salesman in that territory, and Smith will, I think, soon be back in the fold again.

"About Jones. When the salesman took his first order from Jones, I sent him up to Gray to talk it over. He told Gray he could collect but you know how it is. If a salesman enters a store and it has a number of customers in it at the time, it is bound to look pretty good. I doubt whether Jones will ever make us a good customer. The salesman can't collect from a customer if he doesn't have the money.

"Jones says he thought we sold on 60-day time. To avoid any misunderstanding on terms, it would be a good idea to print the

terms on our invoices so that the customer will be sure to know what we expect. That ought to prevent any misunderstanding on terms.

"Brown, the other man you mentioned, was a very good friend of mine. Our salesman says he told me about his death the next week after he died. He maintains stoutly that he told me, but I don't remember it. It must have been Saturday morning when I was very busy and I didn't hear him, because otherwise it certainly would have made an impression on me."

From this point on, the conference discussed ways and means to improve collections by ironing out the defects which this conference had revealed. In the working papers, you have the opportunity to present your ideas on this subject.

BUSINESS MANAGEMENT

COLLECTION PRO- CEDURE — Being Executive Manual 55, on Credits and Collections, in a Complete Plan of Training and Service for Executive Work

*Investigated, organized, and presented by
the research, consultation, and editorial
staffs of LaSalle Extension University*

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COLLECTION PROCEDURE

Part I

COLLECTING SLOW ACCOUNTS

IN COLLECTING slow accounts—and any account unpaid after the due date is slow—the efficient collector's first action, tho simple and routine, is prompt.

The expectant or restless state of the debtor's mind at the time of the maturity of a debt is "capitalized" by calling his attention to his failure to pay as soon as it becomes apparent that payment has not been made when due.

Possibly the debtor has other obligations falling due at the same time and he can pay part but not all of them. If so, he is likely to accept the first invitation; he may be waiting to decide where his failure to pay will attract the least attention—as indicated by the creditor's neglect—and then let that account go unpaid.

Comparison of the experiences of many creditors with the same slow-pay customer shows that almost invariably one or a few of the creditors find that account to be prompt pay, while the other creditors find slowness, in various degrees, to be continuous. The reason for slowness in any one case may lie in the kind of collection procedure employed by the creditor, or it may be that this creditor's line of merchandise or service is not considered important by the debtor; or the debtor may recognize the importance of having at least a few creditors whose experience with him is such that he can depend upon them for favorable comment whenever he may want to give their names as references in opening new accounts. In any event in all such cases—

Knowing the reason why a debtor is slow pay gives the creditor opportunity to do some "sharpshooting" in his collection procedure.

That principle—of the desirability of knowing the true cause of failure to pay—comes up as important at every stage in the collection process.

The Initial Procedure. With many mercantile establishments that extend credit thru open accounts, the practice of mailing to each debtor a complete detailed statement at the close of each month, so long as unpaid items either due or not yet due remain on the books, has become customary.

Such statements vary somewhat in form and content, but they embody the following essential features: date of issue, name and address of debtor, name and address of creditor, dates and amounts of items, and, in many cases, the credit terms. They serve to remind the debtor of the account and to give him a chance to check its correctness and to prepare for payment at maturity if any special preparation is necessary.

Some firms, finding that many customers treat statements as merely routine procedure, are dispensing with them except as a means of calling attention to past-due items. They thus cut down clerical expense. But the practice of sending statements before maturity is quite general.

When sent before maturity, statements are not intended as duns and are seldom so construed. After maturity, however, they serve as a demand for payment. The force of this demand is often augmented by printing or writing (or rubber stamping) on the statement form a request for payment of matured items and perhaps a statement that a draft will be drawn for items not paid at maturity.

It must be remembered, however, that—

Regardless of the form of the initial procedure, there should be a system for immediately bringing to notice all those past-due items that need prompt attention.

A Record and Tickler for Follow-up. When the number

of accounts is small, the practice of following up collections direct from the ledger is very general. This practice, however, sometimes results in haphazard handling at irregular intervals, which usually means costly neglect of collections. If systematic collection routine is made secondary to other duties in the collection department, neglect is likely to occur, especially when business is brisk.

When collections are not kept up with sales, capital is unnecessarily tied up.

Then, too, neglected collections become more difficult to handle, and customers tend to fall into bad paying habits, and this adversely affects future business.

For such reasons it is desirable and profitable that a tickler system to supplement the ledger, and to cover matured accounts only, be maintained, whether the number of accounts is few or many.

It is also desirable, of course, to avoid duplication of records and to reduce rather than to increase the volume of clerical routine. The tickler system can be simplified so that it will require much less labor and time than would be consumed in locating past-due accounts by "thumbing" thru ledgers.

The Tickler System. One good form of tickler is to make out monthly statements in duplicate or triplicate; then to mail the original to the debtor and retain the carbon copy or copies, which are separated into lots according to maturity dates. In one lot are placed only those statements that contain items which mature during the current month. In another lot are placed those statements that contain items which matured prior to the current month. (A third lot contains items that mature later than the current month.)

The statements in lot one (maturing during the current month) are distributed in a daily tickler file, so that they are automatically picked out for attention at

the time when the first maturing item on them requires attention. This time is usually from three to five days later than the first maturity—in order to allow sufficient time for receipt of a remittance if mailed on the day of the maturity or on the first succeeding day. The collector knows that—

Altho premature action may incense the debtor, it is desirable to make use of the psychological advantage existing at the time of maturity.

The second lot of carbon statements containing items that have matured prior to the current month (past due) should be attached to the current-correspondence file pertaining to each. These files can be kept in numerical rotation according to the ledger folios, as shown on the carbon statements, or alphabetically.

The collection files, as soon as remittances are received, should be transferred to the permanent files of the office in order to have in the collection files only unfinished (uncollected) items. If the number of such unfinished files is small, no special tickler is necessary, as it will require only a little effort three or four times a month to go thru them all and give attention to those that require it.

The Importance of Frequent, Regular Follow-up. It is desirable, of course, to follow up a slow-pay account closely, which means frequently and regularly. In following up past-due accounts closely—

The collector must word his messages so as to carry conviction. His messages should carry no suggestion of being mechanical or routine.

It should be remembered, however, that at times there is a psychological disadvantage in frequency of demand for payment. The debtor whose account is past due seldom has cash on hand to make payment; he requires a little time to accumulate the necessary amount from cash sales or from his own collections. If the early pressure for payment from the creditor's office has already

brought him to the point of determining to provide for payment, the receipt of two or three increasingly insistent demands within the period of time that might be necessary for him to accumulate the funds, may irritate him and develop his resistance against paying as promptly as possible. He would, in many cases, withhold payment even after he was in a position to retire the obligation. This possibility emphasizes the great importance of securing a statement of intentions from the debtor as early as possible in the follow-up procedure.

The Correspondence Files. The first item in a file of collection correspondence is the first statement issued after an account has matured; or, in case the ledger-card method for following slow payers is in use, it is a carbon of the first letter written to the debtor. The file should be built from the bottom up, with recent correspondence on top, altho the statement should be kept on top for convenience in checking. This arrangement of the file serves to call the correspondent's attention to the last letter written in the case, and he can write in the light of what was said in the last letter.

Daily Collection Routine. The daily routine in collections is about as follows:

Each morning the statements filed for attention on that date are taken from the tickler box; also from the working correspondence files are brought all of the cases assigned for attention on that day. The statements are checked against the ledger.

All statements of the current month that have been paid in full are destroyed; but if a statement contains other items maturing later that month, it is replaced in the tickler box at the proper date for next maturity.

But if the entire amount shown on the statement has been settled, that fact is indicated by a written or rubber-stamp notation to that effect on its face, and all the correspondence in that case goes to the general office

files. If only part of the items are paid, the file is retained for such attention as the maturities of the unpaid items shown on the statement may indicate to be necessary.

Sight (or Demand) Drafts. A draft, as used in collections, is a written order by the creditor on the debtor to pay to a third party (usually a bank) the amount specified. This method of collection presupposes a direct presentation of the draft to the debtor by the bank. The formality and the publicity incident to such a presentation make it effective, in many cases, as a means of securing payment. But in some cases the banks do not make much of an effort to collect such drafts. They may write to the debtor asking him to call, or they may present it by messenger. If not paid on demand, or within a few days, the bank returns it with a brief note, such as "No reply," "Refused," or "Not found."

But perhaps the great advantage in the use of sight drafts in collection routine results from the formal notice

Treasury Department SPECIALTY MANUFACTURING CO. Chicago, Ill. Gentlemen: In looking over your account, we find according to our records that there is now due by limitation of time _____ In the event that remittance, covering this amount, does not reach us by _____ we will ask you kindly to protect our draft, which will be drawn on you thru local bank. Respectfully yours, _____ Treasurer. Account No. _____

Figure 1. An effective form of notice of draft to be drawn on the debtor's local bank.

that a draft will be drawn on a specific date unless payment is received before that date. Figure 1 shows a practical form for such a notice.

The Use of Time Drafts. Drafts are usually payable at sight or on presentation by the party in whose favor they are drawn, but they may be drawn payable within a specified number of days after presentation, in which case they are called "time drafts." The time draft is seldom used in the collection of past-due accounts. When so used, it is presented, in the first place, for acceptance, with the acceptance and maturity written across the face to be signed by the one on whom it is drawn. If the time to run is only a few days, it is customary for the bank to hold the time draft for payment; or, if the time is longer, it is returned to the drawer, who may treat it as a note.

An accepted draft has the same standing and use as a promissory note and is subject to the same treatment in its use and collection.

The Routine in Using Drafts. Drafts on customers in other towns may be deposited for collection with the drawer's own bank or may be sent for collection to a bank in the customer's vicinity. A method of follow-up is necessary because, in case of the drawee's inability to pay at once, the local bank may hold the draft for an unreasonable length of time to accommodate the drawee, unless word is received from the drawer.

If the bank should fail to collect or to return the draft within a reasonable length of time, this delay will be brought to the attention of the drawer by means of his tickler box from which a memorandum of the draft, made when the draft was drawn, will be automatically taken out for his attention at the proper time. It is good practice to attach to this memorandum a carbon copy of the instructions to the bank to which the draft is sent, if mailed; or attached to the deposit sheet, if the

draft is deposited with the drawer's local bank for collection. Figure 2 shows a convenient form for a letter of advice used in sending drafts or notes by mail for collection.

Treasury Department HARMONY & COMPANY 208 South LaSalle Street CHICAGO, ILL.,192.. 	
GENTLEMEN: Inclosed we hand you for collection and return our Draft on Note of in amount \$..... With Exchange and Collection Charges. Yours truly, J. R. THOMAS, Account No..... Treasurer.	
Account No..... Please Detach and Return with Remittance to Harmony & Company 208 South LaSalle Street Chicago, Ill.	

Figure 2. Advice form used in connection with drafts.

Drafts ordinarily should not be drawn on railroads or other corporations known to pay by voucher, nor on customers who have specified a preference for demands in other forms.

Collecting by Correspondence. Of all the means available for collecting, correspondence is the one most generally used. Collection letters are effective when they are properly planned and prepared.

The first collection letter in any case should, as a rule, be little more than a polite reminder. But it shows the slow payer that the collection department is watching his account. Sometimes more than a polite reminder is advisable as a first letter.

Where a customer is known to be in the "chronic slow pay" class, the first collection letter should be more vigorous than a polite reminder.

But ordinarily a polite form letter reminder is used in all cases alike as a first letter—unless, of course, the large amount involved or some other special feature of the account makes the general form of reminder inappropriate or inadequate.

After the first reminder has been mailed and it becomes necessary to follow up with a second letter, this second letter and succeeding letters should be individualized, taking into consideration all that is known about the debtor's financial condition, his environment, and his intentions.

The Collection Letter Writer's Attitude. There are a few facts that relate to all collection correspondence which should never be overlooked.

Politeness is essential.

It is customary to start a series of collection letters with relatively mild requests for attention to payments; then gradually to work from request to insistence, and on to demand, remembering that—

Nearly always in collection letters it is wise to avoid the use of any language that would give even the most sensitive person any just ground for offense.

Explicitness is also important.

The creditor should state his position definitely, so that there can be no misunderstanding as to what items of indebtedness are referred to in his letter; and he should more and more emphasize his reference to overdue time, as this time grows longer.

Let there be no indication of uncertainty or apology in asking for—or later on in demanding—payment of overdue accounts.

At no time during the negotiations should the debtor be permitted to get the impression that the collector is weakening in his position.

The debtor has an obligation, and no indication whatsoever should be given him that he is not expected to meet it. Confident expectation that the debtor will pay up as requested is the keynote of the successful collection letter writer's attitude of mind.

In either requesting or demanding action on an account, the collector can assume a more or less impersonal attitude. He may well take the stand that he is compelled, by necessity, to request, demand, or enforce payment. But in extending favors, he should resume the personal attitude, especially when the letter writer is granting a favor recommended by someone in authority, such as the credit manager of his firm.

EXAMPLES OF COLLECTION CORRESPONDENCE

Let us now follow thru the correspondence in a difficult collection case, remembering that the examples of letters given are intended to serve only as illustrations in applying sound collection principles. They are not letters that would be effective in every case. As previously suggested, adaptation of collection letters to meet the exigencies of particular conditions in each case is an

important principle of effective collection correspondence which should never be overlooked.

The First Steps in Collecting. The first step in collection procedure is mailing the statement of the account just before payment on the items in the statement is due. A carbon copy of this statement is placed in the tickler box, to come out five days after maturity of the first item to mature as shown by the invoice dates on the statement.

Figure 3 shows a statement dated November 30. It so happens that on this statement is printed the warning that a draft would be drawn without further notice if the account was unpaid at maturity. But many feel that such a printed warning is unwise for use in their cases. They prefer to mail a formal notice of draft to be drawn on a definite date provided the account is unpaid at that time, in case they use a draft at all.

In the case of the statement shown in Figure 3, a carbon of this statement was checked against the ledger on December 17, and at that time the first item on this statement was found to be unpaid. The terms in this case were net in sixty days. Accordingly, a draft was drawn and was sent to the First National Bank of Hartwell, Mo., for collection.

This bank returned the draft, indorsed "Cannot pay now." The returned draft was attached to the carbon statement and the collector wrote to the debtor as follows:

December 24, 1924.

James Cooper & Co.,
Hartwell, Mo.

Gentlemen:

On December 17, in accordance with our customary procedure as printed on our statement of November 30, we made draft on you thru the First National Bank of your city for \$127.43, the amount of the invoice dated October 12. This item is

now twelve days overdue, and the bank has returned our draft indorsed "Cannot pay now."

This is not in accordance with our agreement. Can you not arrange for immediate payment?

Yours truly,

HARMONY & COMPANY.

A carbon copy of this letter was attached to the returned draft along with the carbon copy of the statement, with the statement on top, and these papers were placed in the collector's working file—to come up for attention again at the end of the interval thought necessary before a reply to the above letter could be received.

In the meantime an invoice of December 5 for \$175.73 had been entered against this account.

A statement, including this new item in addition to the three previous items shown in Figure 3, was mailed December 31, 1924, and was stamped "Past due."

On January 8 the account was checked. The matured items were still unpaid. The collector then wrote as follows:

January 8, 1925.

James Cooper & Co.,
Hartwell, Mo.

Gentlemen:

On December 24 we wrote you regarding your invoice of October 12, for \$127.43, now nearly 30 days past due. This item is still unpaid. In the meantime, the bill of October 26, for \$324.47, has matured. This now makes the total amount past due \$451.90.

May we have payment of these two items by return mail?

Yours truly,

HARMONY & COMPANY.

Note the somewhat peremptory end of the above letter. This firm tone, however, is warranted by the facts previously set forth in this letter—and therefore the debtor

will likely feel his sense of obligation without being offended by the crisp firmness of the letter.

The file of correspondence in this case was then put away to come up for attention on January 18. On this day it was found that this debtor had not responded to the above letter, a carbon copy of which had been placed in the file.

Then the collector wrote a third letter, as follows:

January 18, 1925.

James Cooper & Co.,
Hartwell, Mo.

Gentlemen:

These items are now past due in your account:

October 12, due December 12,	\$127.43
October 25, due December 26,	324.47
November 10, due January 10,	223.59

Total past due.....\$675.49

We drew draft on you for the first item and have since written you two letters: December 24 and January 8.

As you have offered no reason, we assume there is no excuse for nonpayment. We regret it is necessary for us to insist on payment without further delay.

Yours truly,

HARMONY & COMPANY.

By J. Weston,
Treasurer.

Note the stronger tone of firmness in this letter and that it is signed by no less than the treasurer of the firm.

This letter was placed in the working file, which was arranged to come up for attention February 6. On that day the account was checked, and again no response had come in.

In the meantime, the last item entered in this account—that of December 5—had matured, and this item was added to the other three items in the demand of the next letter, which read as follows:

February 6, 1925.

James Cooper & Co.,
Hartwell, Mo.

Gentlemen:

We do not understand why your account is still unpaid. The oldest item is now almost 60 days past due and other items, which have matured, bring the total of all past-due items up to \$851.22.

We have written numerous letters, but so far you have not replied to them. We cannot permit the matter to rest in this shape. Payment must be made without further delay.

Yours truly,

HARMONY & COMPANY.

By J. Weston,
Treasurer.

This letter, dated February 6, was placed in the working files and was taken out February 16, when the account was again checked—and no response had been received. A telegram was sent this time (on February 16), as follows:

James Cooper & Co.,
Hartwell, Mo:

Have you fully complied our important letter sixth Wire
answer

HARMONY & COMPANY.

Even this telegram secured no response. What then was done?

Before going on with this case, let us briefly consider the psychological effect of a telegram.

The Psychology of the Collection Telegram. The collection procedure in this case up to the time of the telegram was based on the assumption that the credit of this firm was good, with no special hazard in evidence when the business was accepted. Failure to answer the letters might have been due to carelessness, or a natural dislike for making an excuse where payment is expected, or for some other reason that had no serious import. But

failure to respond to the telegram indicated that something was vitally wrong in this case.

The influence of the telegram does not lie so much in the strength of demand conveyed in its wording as in the psychological effect of the urgency and seriousness of the demand implied by the fact that a telegram has been used rather than a letter. The telegram strongly suggests urgency and exhausted patience. In fact, a telegram usually either brings in payment, if payment is possible, or, if temporarily impossible, it brings back explanations and promises of early attention.

The telegram should be used only when letters are ignored or when definite promises have been repeatedly broken. Under such conditions, no offense can be taken if telegrams are used.

If the debtor complains of such usage, he is answered by a reminder that he had paid no attention to letters, and that a telegram had been sent in preference to giving his account to an attorney, which was the logical alternative.

Of course, proper precaution should be exercised in all correspondence, whether by letter or telegram, to avoid committing the legal offenses of blackmail or libel.

Blackmail is "extortion of money by intimidation, threats, or accusation."

Libel is "any statement published without just cause or excuse, expressed either in print or in writing, tending to expose another to public hatred, contempt, or ridicule."

From the standpoint of the collection correspondent, libel and blackmail are closely similar. The behavior of a debtor may be of a nature to expose him to "public hatred, contempt, or ridicule," but a direct threat to expose this behavior unless payment was made would be construed as blackmail. The fact that the accusations would be true and the debtor really deserved "public

hatred, contempt, and ridicule," would not change the situation.

Notice that the above telegram does not reflect discredit upon the debtor, but that it draws attention strongly to the importance of the last collection letter; yet it implies drastic action to follow unless the creditor hears from the debtor—and the debtor will be much more likely to respond to such a telegram than if the collector had said, for example: "Must have immediate payment overdue account. Wire answer."

When the Collector Takes Drastic Action. Before taking more drastic action, the collector in the case we have been following investigated the customer's condition. A salesman traveling in this customer's vicinity was notified of the customer's failure to pay and requested to collect or report. Other creditors were consulted with a view to determining their general experience with the account. In the meantime, the collector, on February 21, wrote the following letter.

February 21, 1925.

James Cooper & Co.,
Hartwell, Mo.

Gentlemen:

Since you had not answered any of our letters about your long overdue account for \$851.22, we wired you on February 16 as follows: "Have you fully complied our important letter sixth Wire answer."

You have ignored the telegram as well as the letters. We believe you will agree that we have not only been liberal, but have more than done our part, and that we have extended more than due courtesy.

Under these circumstances you must realize that we cannot permit the matter to drift any further, and that unless immediate payment is made we shall be compelled to hand your account to an attorney with instructions to protect our interests by taking any action that may be necessary to secure payment.

You realize, of course, that a report of legal action would reflect seriously on your credit standing, and we sincerely

hope that in your own interest, you will not force us to this extreme.

If we do not hear from you by March 1, however, the matter will be placed in the hands of our attorney for collection.

Yours truly,

HARMONY & COMPANY.

By J. Weston,
Treasurer.

By that date some reports and possibly word from the salesman should have been received in answer to the inquiries made. Also, if the customer had any regard for his credit, a reply should have been received from him. If so, and if what the debtor has to say is worthy of consideration, then the next step would be modified accordingly; the giving of the account to an attorney would be delayed at least until another letter had been written.

Short of some forthcoming explanation that is reasonably satisfactory and plausible, however, and after considering all recently secured information, the next best move is to visit the customer at his place of business or to send a good adjuster to see him.

When the Collector Makes a Personal Call. To have adjusters make personal calls on customers whose accounts are long overdue is, of course, expensive, more so than would be justifiable in handling many of the smaller past-due accounts. The amount involved in this case, however, is sufficient to justify the exercise of every precaution to avoid precipitating a failure, at least until every reasonable effort toward collection has been exhausted. Besides, aggravated as this case is from every standpoint, it may still be possible to clear it up and to develop some basis for continuing a satisfactory account. A change of front from planning legal action to a personal call can easily be justified.

Variations in Collection Procedure. In the case covered

in preceding pages, the collection procedure has been developed consistently and rapidly, as the correspondence has been altogether one-sided. In 90 per cent of cases, the collection would have been closed by payment after one or another of the first four letters above quoted. More than half of the remaining 10 per cent of debtors would have paid all, or part, after receiving the telegram; and, unless the debtors were absolutely insolvent, the others would have paid on receipt of the fifth letter.

In the case described, had the debtor answered any one of the letters, the succeeding letters would have been modified to meet the new elements injected by what the debtor had to say. Also, a review of the credit files and record—which really should have been made about the third letter—might have prompted some special turn or action other than a gradual increase of pressure.

For example, if examination of the credit file had revealed that the customer belonged to the “chronic slow-pay” class, it would have been largely a waste of time to have followed the normal procedure. Such debtors are invariably callous from much prodding by many creditors. They never pay short of an ultimatum; consequently—

The sooner an ultimatum is launched in handling a chronic slow-pay customer, the better.

Results, however, in the handling of the occasional slow-pay commercial account, where no special hazard has become apparent, are more dependent on a building up of increasing pressure at reasonable intervals, as in the case cited, than on the efforts to find out what excuse the debtor can offer and then to try to fit the correspondence to it. In fact, where the debtor answers letters setting forth excuses, it is usually the case that the excess time already taken is adequate to meet the excuse.

There are cases where conditions arise of the kind that

could not reasonably have been expected. These should be treated according to their merits, but leaning toward liberality unless the situation is so acute and far gone that nothing short of final liquidation is possible. In such a case the quicker the ultimate action to be taken is taken, the better it is for all concerned—whether that action contemplates the extension of help to the debtor or, if need be, forces him into bankruptcy.

Handling the Chronic Slow-Pay Account. The collector of commercial accounts must not overlook such special cases. But his work is almost entirely concerned with the chronic slow payer; that is, with the customer who is constitutionally and temperamentally slow in paying—who is just as certain to be slow on terms of one year as on terms of sixty days. Such debtors may be selling goods in the spring and summer to their trade on fall terms, and they may therefore be taking in no more cash at the time than is necessary to meet their most urgent current expenses. But to accommodate such debtors by extending July maturities to October would be bad practice. This is true because collection pressure inaugurated in July could be developed to a point that would result, surely, in payment in October; whereas, were a definite extension to October granted in July, then the same building up of pressure would probably be necessary in October, with the result that actual collection would be deferred to a later date.

The only practical relaxation in handling a chronic slow-pay account during a season when the collector knows that the debtor is getting in very little money, is that suit or threat of suit should be deferred until after the slack season is over.

Probably the chronic slow payer should not be in business at all, or should be denied credit altogether—which would put him out of business—because nearly all of this class of debtors sooner or later fail in business. Yet there are some chronic slow payers who have dragged along

for years, and the impression prevails among credit men that it would be too drastic to cut them off so long as ultimate collection is reasonably assured.

The logical procedure in handling chronic slow payers is to recognize them as such, and deal with them according to their merits.

They are not thin-skinned; rather they have become callous from constant prodding. True, they sometimes squirm a little, or even growl, but that does not really mean that they have been hurt, and does not affect future sales relations with them—unless a sensitive salesman, by his apologetic air, encourages them in working up a case of resentment.

A good collector always, of course, has the welfare of his business in mind. He is as anxious as is the salesman to conserve the good will of desirable customers, and he will not unnecessarily take any action that will result in withdrawal of desirable business.

How Salesmen Should Handle Disgruntled Debtors. All salesmen who make repeat calls have had the experience of now and then meeting a customer with a much injured air on account of alleged harsh or unfair treatment by the collection department. The customer usually threatens to place his business with another firm where it will be appreciated and where he can expect "decent treatment."

In such cases, there are two lines of action that the salesman may follow: he may sympathize with the disgruntled customer, or he may look upon the case as an opportunity to help the credit and collection department of his house.

If he is a salesman who fears the loss of the customer, he may express regret and apologize and lay the blame on routine or irresponsible clerks. He may try to assure the customer that the objectionable letters really mean nothing, and wind up by assuring him that he, the salesman, will personally undertake to see that there shall be no repetition. But, obviously, that kind of weakly defen-

sive action only leaves the customer in a frame of mind that is sure later on to result in necessitating the kind of collection treatment that will drive his business to competitors—if, indeed, the salesman does not fail then and there to get an order as a result of augmenting the customer's resentment against his house.

Unquestionably, the right action for the salesman to take in such cases is to ask to see the objectionable correspondence and ascertain the facts in the case; then, on the basis of the facts, he can point out in diplomatic terms what the customer might have done to avoid the unpleasantness. Then, if he gets an order, there will be less likelihood of necessity on the part of the collector for repeating previous harshness, unless the customer is incorrigible. It is also evident that this right action enables the salesman to discover those few cases where customers actually have received unreasonable letters—cases which he should bring to the attention of his superiors.

Co-operation of Collectors and Salesmen. We can clearly see the great advantage that lies in intelligent co-operation between the collector and the salesman.

The salesman should be familiar with all past-due accounts in his territory. A simple monthly list showing name, address, amount past due, and maturity date of each slow-pay account is all that is required. If advisable, the salesman can be asked to take the matter up with his customer in certain cases, judge the case on its merits, and then make a report that will insure intelligent handling of the account by the collector.

When the failure to pay has continued to a point where treatment more drastic than ordinary becomes necessary, copies of letters written to the debtor can be sent to the salesman with a request for suggestions, information, or assistance if he sees a way by which, from his personal acquaintance with the customer, he can be of service. Then, before any action is resorted to that will make it

undesirable to accept new business from that customer, the salesman can be notified of the impending action and given an opportunity to make the collection so that he can save his customer for future business.

Intelligent, aboveboard co-operation between collectors and salesmen is one of the most important means of avoiding the loss of accounts that fall behind in payments.

In some firms the salesman does the collecting. But it is desirable in most lines to avoid placing the burden of collections on the salesman. So long as an account can be handled by ordinary correspondence, the salesman should not be asked to deviate from his one supreme function of selling, as fully explained in the major section of this training service that covers selling and sales management.

* * * * *

We have considered the regular procedure as followed in collecting different classes of accounts. Let us now, in Part II, consider special ways and means of collecting accounts.

COLLECTION PROCEDURE

Part II

SPECIAL WAYS AND MEANS TO COLLECT

AFTER a collection has been worked thru all ordinary routine without result, an investigation frequently discloses that the debtor has sufficient assets, if liquidated, to pay up his indebtedness in large part, if not in full.

Where the debtor is honest, such cases can usually be handled most profitably and economically under an arrangement whereby the debtor is permitted to continue his business under the direction of a committee of creditors. In many cases a plan can be devised which will take care of debts and at the same time keep the debtor's business alive, even increase its vigor in earning profits. But if the business must be forced into insolvency, the creditors' plan provides for an orderly liquidation and a saving of amounts that would otherwise be consumed in costs, attorneys' fees, and like expenses.

In dealing with a debtor who is entirely solvent, a suit by one creditor may be permitted to go thru if there is no question as to the solvency of the debtor. But where there is any question as to solvency, the other creditors must, in order to protect themselves, immediately on the filing of the suit take measures thru bankruptcy, or otherwise, to prevent a preference; that is, to prevent any one creditor from collecting proportionally more from the insolvent debtor than they collect in relation to the amounts owing to the several creditors.

While this action prevents preference to the creditor who starts the initial suit, it also may dissipate a large part of the debtor's assets thru costs and fees, and it may lead to the depreciation of the market value of the assets

to an extent that would seriously injure the claims of all the creditors.

Creditor's Co-operative Action. In many cases where a debtor cannot pay or give satisfactory security for payment at a future date, it is better to call in all creditors with a view to co-operative action.

In recent years, the work of the adjustment bureaus connected with the National Association of Credit Men has been so effective in promoting successful co-operative action that this kind of action is now highly favored by credit men in dealing with insolvent debtors. These adjustment bureaus are not operated for profit. They operate economically and are the means of greatly increasing the amounts collected from bad accounts.

Collectors must keep in mind the fact that—

Bankruptcy proceedings are expensive and they afford little opportunity to take advantage of seasons or economic conditions in liquidating the debtor's assets; and, consequently, they are likely to result in heavy, and sometimes total, losses to the creditors.

Gradual liquidation of a debtor's assets—without fees for lawyers, receivers, trustees, and other expenses incident to bankruptcy procedure—may be of considerable advantage to the creditors. If a condition of insolvency or of serious embarrassment is discovered in time, a meeting of creditors may be held and arrangements entered into for gradual liquidation by or under the direction of a committee of the creditors and for the impartial benefit of all the creditors.

The honest debtor can always be counted on to co-operate to the fullest extent in furthering such a liquidation.

To what extent the debtor's services can profitably be used, however, depends largely on the conditions in the case and the reasons for the embarrassment.

Determining the Nature of Co-operative Action. If the

debtor's assets are ample or if he is but temporarily hard pressed on account of some unforeseen contingency, all that may be necessary is for the creditors to agree to a uniform extension of time, and leave it to the debtor to work out his own salvation—possibly under a very general supervision of the creditor's committee.

If the business is suffering from some vital weakness, such as lack of business ability or intelligence on the part of the debtor, it is usually best to secure an equitable assignment of all the debtor's assets and relieve him from further participation in the case.

If the difficulty is lack of ability, the debtor may not realize that he is a failure and may demur at a total withdrawal. Such debtors often entertain rosy views of being able to recover if given an opportunity to do so. If so, it may be well for the creditors to agree to a moderate extension of time, with the understanding that the debtor will retire in the event that he has failed to show certain results within the stipulated extension of time.

If the debtor's assets are of a nature and in sufficient amount to justify some expense in order to conserve them, a contract may be entered into between the creditors and the debtor which gives him an opportunity, under proper surveillance, for reconstructing his finances. But such contracts usually provide for the transfer of the debtor's assets to the creditors at the end of a specified period of time unless a definite program of improvement and payments is carried out before that period of time has elapsed. The extension contract should cover such a transfer provision, for otherwise the debtor may develop some other excuse and may insist on still further indulgences. If so, some of the creditors may lose patience and start proceedings to force liquidation, rather than spend more time and money in an effort at co-operative adjustment.

Agreements for general extension under creditors' supervision, whether embodying terms for complete liqui-

dation or not, should be drawn with great care. It is necessary to safeguard the interests of the debtor and all the creditors and particularly to protect the creditors' committee from personal liability. Conditions are different in different cases, and the legal requirements to be complied with vary in different states, as explained in the section of this training service on legal problems. For these reasons, no general form for such agreements is practicable. On account of the varying requirements incident to such special agreements, these agreements should be drafted under the direction of a competent lawyer.

The Employment of Attorneys. As a rule, some of the claimants or creditors are represented in the creditors' meeting by local lawyers, who, for a nominal fee in addition to their commission on collecting the claims in their hands, will be glad to assume responsibility as to legal forms and requirements. Such employment of lawyers tends also to safeguard the debtor's business against other legal processes which might result in reduced returns to the creditors.

Elements of Successful Co-operative Collections. There are three practical points that are essential to profitable co-operative collections of the kind above mentioned, as follows:

1. Co-operative creditors' action should be taken before several claims have been placed with attorneys for pressure. (The lawyer's training naturally has developed his respect and preference for court processes. Furthermore, there is an advantage to the lawyer personally, if not to his client, in his representing the petitioning creditors in bankruptcy action. If other attorneys have claims, he can gain this advantage and excuse himself to any protesting creditor by saying that bankruptcy was inevitable and that if he had not filed the petition, someone else would have done so.)
2. There must be convertible assets in sufficient amount to make it worth while for all the creditors to defer their

claims for a time and to justify a committee of the creditors in giving their time to the liquidation. The committee is usually made up of representatives of the largest creditors. (If possible, one member of this committee should be a resident in the debtor's vicinity.)

3. If the case is one for final liquidation or one in which for any reason the debtor is not a proper party to conduct the business, there must be some available individual of proper qualifications who is willing to take charge of the debtor's business, under the supervision of the committee, for a rate of compensation justified by the volume and value of the assets to be liquidated.

Collection by Legal Process. Collection by suit has already been referred to as a final step in the collection process. This method is effective when the debtor has property subject to the execution of a judgment against him.

Even tho a debtor possesses no tangible assets by which a judgment could be satisfied, he will in nearly all cases prefer not to have a judgment stand against him. A large percentage of debtors offer either to settle the claim when the suit is started or to pay the judgment as soon as possible. So the policy of most collectors is to secure a judgment by process of law after other means of collecting have failed.

Only after every reasonable effort has been exhausted by the collector, his agent, or attorney to secure payment, and where co-operative liquidation is not practicable, is it customary to take the case to court.

Legal Procedure the Last Resort. The National Bankruptcy Act, thru its provision for equitably securing all creditors on a parity with each other, prevents the securing of preference by any one creditor when a case is thrown into court. That is an important reason why relatively few cases now get into the courts, except as a last resort. In fact, most suits for debt are now cases in which there is a dispute as to the amount, the terms, or the equity of a claim which the parties cannot settle

between themselves; or a case in which a debtor who has ample assets for some reason ignores the rights and the demands of the creditor until all his patience is exhausted.

Where the services of a lawyer are required, he should usually be employed on the basis of his ability to avoid taking a case into court rather than for his keenness in the court room.

Furthermore, the employment of an attorney or the threat of action in a court is of doubtful propriety until it has become evident that nothing short of forcing by legal process will be effective. But it is doubtful economy to undertake to avoid the expense of employing counsel when a collection is against the estate of a deceased debtor, or when an estate is being administered by a receiver, or when for any reason there are special legal formalities of any nature to be complied with.

Some Legal Precautions. Nearly all business concerns have one or more lawyers or law firms retained for advice or direction on legal questions as they may arise. A collector should avail himself of this legal service whenever advisable or necessary.

In order to decide when legal services are advisable or necessary, he should know what statutes are of particular interest in their bearing on his work. He should know, for example, that the Statute of Limitations sets a limit to the time in which claims of various kinds may be enforced by law. He should also know that this statute varies widely in different states and that in the same state it may vary in its application to accounts, notes, and judgments.

A collector must also inform himself concerning statutes of fraud, statutes defining the status of accounts against infants, or against estates in which minor heirs are interested, or against a married woman, etc. He should know in a general way of legal set-offs, statutory exemptions, rights of lien, and their limitations. He

should read the Bankruptcy Act, and fix in his mind its requirements, its limitations, and its definitions.

Such legal information is of great value to the collector, because it enables him to determine when he should secure legal assistance, and it enables him to guard against complications. When he knows such processes of law as garnishment, attachment, replevin; when he knows that fraudulent conveyances can be set aside, etc.; he can then keep himself and his house out of a "peck of trouble."

It is necessary for a collector to remember, however, that—

Whenever legal action is taken, either offensively or defensively, a lawyer should be employed with a view to keeping out of court—or, if litigation is unavoidable, to go into court with a clear case.

MODERN COLLECTION AGENCIES

The extremely liberal extensions of credit that often accompany efforts to expand markets have naturally resulted in numerous slow, uncertain, and even unwarranted accounts. At the same time, the number and volume of such accounts, even in the offices of the largest extenders of credit, are often not sufficient to justify the development of special facilities or the employment of experts in collecting the slow accounts. In such cases the services of a modern collection agency may be enlisted.

The collection agencies undertake to provide facilities and channels for the efficient handling of hard collections either in their immediate vicinity or at various points in the country thru established connections or by traveling adjusters. A collection agency is usually owned and operated by a lawyer or firm of lawyers who supplement their regular law practice by serving various firms as expert collectors of slow accounts. They usually will make collections in cases where no question of law or its

practice is involved, as well as where legal action is necessary.

Usually, in making collections away from home, they make use of lists of lawyers available for the work of making collections in other towns or cities. These lists may be compiled and published either by themselves or by concerns who specialize in compiling and publishing such lists.

These agencies charge a fee or commission contingent on results. It is customary to make no charge for services unless collection in part at least is effected, except in cases where suit is necessary and where an agreement for special compensation exists. Where legal action is taken, the costs and fees required by the courts in starting the action are customarily paid in advance by the creditor.

The Nature of Collection-Agency Service. Well-established collection agencies are to be found in nearly every jobbing and manufacturing center. In addition, as previously suggested, many lawyers and firms of lawyers include in their practice that branch of the legal profession known as "commercial law," which includes the making of collections.

Among lawyers who render this service some of the best law firms are included—and some of the poorest, with all grades of the profession in between. Unfortunately, collection service is open to unscrupulous and unethical measures, with considerable immunity. Consequently, great care must be exercised in selecting an agency to whom a collection is intrusted,

Precautions in Employing Agencies. The large number of collection agencies now operating adds to the difficulty in selecting local collection correspondents of ability and integrity—unbiased by sympathies for their neighbor, the debtor, or by their own political and local interests.

If not careful, the collector of accounts may enlist the

service of a collection agency which is so hard pressed that it will take a chance on using its client's money. Furthermore, even an honest and forehanded agency may forward a claim to a local lawyer who collects and uses the money. In either case the discovery of defalcation, if made at all, is by accident and possibly years after it occurred. If the collector does discover the shortage, he has no recourse other than civil (not criminal) action, with a strong probability of a judgment that will be worthless when secured.

Defalcations can be avoided by the employment of attorneys from bonded lists; that is, lists of attorneys who have put up a bond to guarantee their integrity in handling collections. But no way has been found for overcoming the more subtle irregularities, except forceful condemnation and the withdrawal of business and confidence from all offenders.

The Use of Private Adjusters. On account of the hazards encountered in employing the service of collection agencies and of local lawyers, some of the larger extenders of credit maintain an organization of their own adjusters located at strategic points. These adjusters render a constructive service. While they do not always secure immediate cash, the ultimate outcome is the best possible for their employers and is effected with the least possible disadvantage to the debtor.

If the service of a lawyer is required, these adjusters not only have the advantage of reference to published lists—either open or bonded lists—but also have the advantage of being in a position to check the lawyer's local standing and his relation to the debtor. Their work is always constructive; but an independent agency or lawyer who collects on a contingent-fee basis is often compelled, in his own interest, to employ destructive tactics that are harmful both to the creditor and to the debtor.

Personal Adjustment Services. Recognizing the need for a more dependable collection service than is ordinarily rendered by independent forwarding agencies and local attorneys when they are selected more or less at random from published lists (in which the names of agencies and lawyers are inserted for a consideration), certain agencies and commercial lawyers have in recent years been offering what is known as "personal adjustment service." These organizations undertake to present all claims, or at least all claims above specified amounts, in person thru a trained adjuster who represents the creditor's interest to the extent not merely of securing payment but also of fostering the good will of the debtor and retaining his trade if he is in condition to merit further credit.

These personal adjusters are usually not lawyers. If they are lawyers, they do not approach a debtor as such. But they approach him in the attitude of a business man or an employe of the creditor. Finding the debtor short of ready funds, the personal adjuster does not, either in words or by his appearance as a lawyer, suggest suit, costs, or seizure of property and sale at a sacrifice. But he studies the debtor's problem and endeavors to find a way to serve his employer and at the same time avoid placing any undue hardship on the debtor. Moreover, since he is on the ground he can detect cases of hopeless insolvency. If he is unable to collect or secure his employer's claim, he will take immediate measures to prevent dissipation of such assets as remain, not only in the interest of his employer, but of other creditors as well.

In short, personal adjustment service aims to supply creditors with the same high quality of service as that supplied by a creditor's own private adjuster. Such service is of great value to the creditor whose volume of business is too small to warrant the organization and main-

tenance of a private personal adjustment service of his own.

But personal service of this kind is relatively expensive, requiring as it does the payment for time and traveling expenses of the adjuster. Its cost restricts its use to the collecting of large claims against debtors who possess considerable assets that are convertible into cash. If smaller claims are handled, there must be a large enough volume of collections to afford a basis for making up traveling routes that will reduce to a low point the average time and expense per claim handled. Confining the service to the large claims is skimming the cream of collections. The lesser items (which often call for special attention to an even greater degree than do the large ones) are followed up by the forwarding service—or by some other plan which, as a rule, is not as certain or effective.

* * * * *

Now, in Part III, we shall conclude our study of collection procedure by giving attention to the collection of accounts other than those of wholesalers.

COLLECTION PROCEDURE

Part III

COLLECTING FROM CONSUMERS

ACCOUNTS of retailers and others who sell goods or services to individuals as consumers are collected in much the same way as wholesale accounts. More often in the case of consumers, however, the value of the goods or services charged for is not duly recognized by the debtor. Therefore it is more often necessary for the collector to stress the real value of the services that have been rendered the debtor, in order to make the collection.

Collecting for Services Rendered. Difficulty in collecting a debt for services rendered usually is traceable to one of the following reasons:

1. Disagreement as to the value of the services.
2. Denial by the debtor that the services have been rendered.
3. Allegation that services were rendered contrary to instructions.

Difficulties of the kind mentioned nearly always resolve themselves into a question as to whether or not a compromise should be effected with the debtor.

Usually the collector should take a firm stand that the service charged has actually been rendered; that this service, as rendered, was duly contracted for by the client; and that therefore the account must be paid in full.

If the collector is able to prove that the service rendered gave the buyer the results he desired, then, of course, the collector's work is very likely to be successful without much difficulty. In particular is this the case if the debtor is likely again to require the same kind of service in the future.

Collecting Retail Accounts. The same principles that

underlie the successful collection of wholesale accounts apply in collecting retail accounts. But because of the difference in the use of the commodity, in the basis for credit, and in the source from which funds for payment must be derived, as explained in preceding executive manuals, somewhat different practice and procedure are necessary in collecting retail accounts.

The commodity represented in the wholesale account is purchased by a retail merchant for resale at a profit, or by a manufacturer for making his finished product. But goods sold at retail go into actual consumption. They are either quickly used up or they rapidly depreciate in value.

The basis for wholesale credit is the progress of and investment in the business, plus the value added by the commodity in its resale or as it enters into the production of some other commodity to be sold at a profit. Not so with goods sold at retail. Payment of the retail account is not based upon resale, but is dependent on personal income, earning power, or accumulated resources.

Notwithstanding the difference between retail and wholesale accounts, however, the preliminary routine in handling both is practically the same. Success in collecting both is dependent on learning all the facts and fitting the treatment to the facts.

The principles of close and prompt following up of all overdue accounts and of a definite understanding regarding terms of payment apply to retail as well as to wholesale collection procedure.

Procedure in Retail Collections. The information on which the credit was extended should be reviewed, revised, and brought down to date. If credit was based on security, reasonable effort should be exerted to collect without recourse to the security. If unsuccessful, the collector should proceed against the security as a final resort.

If thru inadvertence, bad judgment, or carelessness, a large extension of credit has been granted where only a small one was justifiable, the mistake should not be made of paralyzing the debtor by demanding a payment of, say, \$500 when perhaps he never had over \$50 at one time in his life. It is better to coax \$25 payments and keep them coming regularly.

An arrangement for installment collections under such circumstances is good business if payments are arranged to fall due when wages are paid or at other times when money is likely to be in the hands of the debtor.

Every account, wholesale or retail, that runs beyond the stage of routine treatment should be considered as a separate and individual problem for solution.

First, the collector should be sure of all the facts and figures; then, if an old rule of procedure is applicable, use it. But if no old rule of practice seems applicable, the collector will set himself the task of evolving a method to fit the particular case in hand.

Collecting thru Personal Calls. Frequently, perhaps generally, the basis of retail credit is less tangible than that for wholesale credit. On the other hand, the retail debtor is usually located near at hand where he may be reached easily and at small expense for a personal interview; consequently, the disadvantage in the basis of credit is offset by the opportunity for advantageous and intelligent personal handling.

The advantage of personal contact should never be lost sight of. Wherever the amount, condition, or opportunity warrants it, in either wholesale or retail accounts, the collector should make use of the personal call.

The small local retailer often does not realize the full significance of businesslike collections until he has far too much capital tied up in accounts outstanding. The time is gone when a retail dealer could wait for statements to come in from his suppliers, then stick a few bills in his

pocket, and go out and collect them in order to gather funds for paying his debts. That practice is to-day too dangerous.

When bills are allowed to slide, the collection process is jeopardized. Some successful retail dealers make a practice of calling up on the telephone just as soon as an account becomes overdue. They never allow one of their accounts to get very far behind. Their collections co-ordinate closely with their customers' incomes. In industrial communities the credit risk is too great unless the collection efforts synchronize with pay-roll periods. Amounts due should never be allowed to run over from one pay day to another.

In the same way when a monthly account is run, it is not wise to allow "pyramiding." This term is applied to the habit of paying only part of an account when due and allowing part to remain over to the next month. From month to month, this remaining balance has a way of growing larger, until the customer runs his account much higher than his means or income justify—and the higher it goes, the greater becomes the risk of collection in most cases.

Certain large department stores insist absolutely on full payment of a monthly account by the 15th of the following month at the latest. In the same way in farming districts many merchants are attempting, successfully, to confine accounts to a monthly basis by encouraging the farmer to make use of local bank credit so that he can pay his current monthly bills on time.

MAKING INSTALLMENT COLLECTIONS

The field of installment collections is becoming more important and more extended every year; and it is a highly specialized collection procedure. But before analyzing installment-collection procedure, let us consider the fact that it makes a difference whether an account is local or distant.

Methods which can be employed locally often cannot be advantageously applied to distant accounts. It would be unwise, for example, to telephone or to send an adjuster to a distant point unless the cost of that action would be relatively low in relation to the amount to be collected. Also, the manner in which any methods of collection are applied will vary with the kind of merchandise dealt in—depending largely upon whether it is a luxury, so called, or a necessity. A person does not buy a diamond ring for the same reason that he buys a suit of clothes. His intentions and purposes are different, and the character or tone of the collection procedure should be in harmony with those intentions or purposes.

The conditions existing at the time of sale determine the collection procedure.

Methods Used in Installment Collections. Methods of collecting installment accounts are not radically different from methods employed on other accounts. The telephone and the personal call are effective in local territory. When properly used in a pleasant, courteous manner, they not only get results but also leave a good impression. They can be made into good-will builders if good selling sense is employed when using them.

Ordinarily, however, collection procedure is carried on by correspondence. In standard practice among retailers, a notice is mailed to the debtor about ten days previous to the maturity of the obligation. This notice is simply a polite reminder, and is so worded that it will be received as such. It can be in the form of a letter, but more often it is an obviously routine notice, courteous and straightforward, sometimes with a space provided in which may be included a statement of the account.

That notice is merely a preliminary move, but once the maturity date is passed, the burden of collecting is usually taken up by form letters, mailed at regular intervals, usually about ten days apart. These form letters

may be typewritten or printed. They are nearly always short in length and are usually two in number. They convey to the debtor such ideas as "payment momentarily expected" or "inability to understand the delay in payment."

In many cases, in addition to taking up the matter of payment, installment-collection letters contain statements, illustrations, or suggestions which tend to "re-sell" the merchandise to the customer. They may say something which reminds the debtor of the reason which prompted him to buy in the first place or refresh his mind on the value of the merchandise to him.

When Special Letters Are Written. Should the two form letters fail to secure payment, the account then is about twenty days past due, and is ready for special attention. At this stage individual letters are framed, so worded as to find out why payment is not forthcoming. Here also the resale element will be considered, perhaps a little more effectively because of the individual attention given.

These special letters may carry the account over to the time when another installment becomes due.

Thruout the process, care should at all times be taken not to violate the law. There are three principal legal pitfalls to guard against: blackmail, libel, and the postal regulations. Blackmail is "extortion of money by intimidation, threats, or accusation." Libel is "any statement published without just cause or excuse, expressed either in print or in writing, tending to expose another to public hatred, contempt, or ridicule."

The postal regulations forbid the display, either on an envelope or on a postal card, of anything that will convey the idea that the addressee is being dunned, of anything in the nature of a threat; in fact, postal rules are violated when the collector says anything that may

broadly be considered to reflect upon the character of the person addressed.

Debtors Who Can Pay. Before an account reaches the stage following the sending of a fourth letter—two form and two dictated letters—it usually will have been paid. Among the accounts still unpaid, many of the debtors will have written explanations which require still further special attention, while a very few of the accounts will not have been heard from at all.

Of those debtors who give an explanation of some kind, it is necessary for the collector to determine which ones can pay and which ones actually cannot pay. Those who can pay should be subjected to further pressure with a view of compelling payment, while those who cannot pay will either be given an extension or lose the merchandise thru the right of repossession resting with the seller.

Grouped with those who can pay, but fail to do so, will be those, mentioned previously, who have not answered any of the correspondence. These two groups will be handled in the same way, subjected to the same pressure. If they are situated near enough, perhaps adjusters can call. Otherwise telegrams or registered letters can be sent; or collection agencies may be put on their trail; or the claim may be placed in an attorney's hands. It should be remembered, however, that—

If legal action is contemplated, the personal-exemption laws of the debtor's state should be considered before legal action is taken.

When matters reach this stage, the action taken to bring pressure will depend on the expense which the account can stand, the value of the merchandise if repossessed, and the value of the loss of good will. In many cases, there will be a threat to repossess at some stage of the collection process. Once this threat is made,

repossession action should follow unless payment is made. In general—

The course of action chosen should be the one which will bring the greatest net returns in terms of money value and of good will or future profits.

In the case of those who cannot pay at the time, it is well to consider the likelihood of their being able to pay in the near future. If it looks as tho they will “get on their feet” soon again, an extension should usually be granted, and the collector will be as lenient as he can in conformity with the interests of the firm he represents. Should the prospects of payment be dim, then the right of repossession will be exercised.

Handling Debtors Who “Lose Themselves.” Debtors who “lose themselves”—that is, those who move from one location to another without leaving a trace of their whereabouts—are a bothersome class. It is an important function of the initial credit investigation to weed them out at the start. The record of their residence in recent years is important. Are they so occupied and situated that they could change their place of residence “overnight”? If so, they might become what are commonly known as “skips.” They can usually be traced, however, thru the references they have given or thru their employers, landlords, neighbors, the police, or possibly the post office.

In following up these skips, much depends upon the ingenuity of the collector and the effectiveness with which he can use “locate” letters.

Procedure in Following up Installment Accounts. For following up installment accounts, a procedure that has been successfully employed is this:

Each account is listed on a separate card and all the cards are divided into two groups—the “regular” and the “special.” The regular cards contain all those accounts paid up to date or less than thirty days overdue. They

are filed according to due dates. The special cards are all accounts which are over thirty days past due. They are to receive special attention.

Normally, of course, the great majority of cards will be in the regular group. In this group, the cards, arranged by due dates, are divided into two divisions of cards under each date—"paid" and "unpaid."

Behind the "3" tab, for example, will be found all those cards which call for payments on the 3d of the month. These cards will be divided into two divisions:

1. A very few which have been paid (there are some customers who pay in advance).
2. The greater part of them which are still to be paid.

The same division will be carried out under every day in the month.

Thus on the 21st of the month, notices are sent to those whose payments are due on the 31st of the month. These notices are sent to all names on cards in the unpaid group that are filed behind the tab marked "31."

On the same day, the 21st, it will be time to send the first form letter to those whose payments were due on the 11th of the month, but which are still unpaid on the 21st. These names are found filed after tab "11."

Also, the 21st will be the day on which the second form letter will be sent to those whose payments were due on the 1st of the month. Behind tab "1" will be found those accounts to whom the second form letter is to be sent. When this second form letter is mailed, this group is transferred from the regular to the special file. Of course, at any time a payment is received from a customer whose card is in the special file, the payment is posted and the card is returned to the regular file under the date when the next payment is due.

Collections That Require Individual Treatment. In the special file, each card is given individual attention. All the facts and data are considered and special letters are

dictated. These letters, as has been explained, try to find out why payments are behind, and they are usually two in number, unless a reply to the first letter is received. A reply to the first or second form letter determines the course of correspondence.

Each individual letter written is noted on the back of the card, and at the same time the card is marked to come up for attention again ten days later. Since the special file is small, these cards are brought up for attention by going thru them all once each day, looking at the backs of them and reading the dates. In this way each account is systematically given individual attention.

Where a card system includes many thousands of cards, it is best to divide them territorially into several sections according to the location of the customers. Then each geographic section can be handled by the system which has just been described, having each collector handle one prescribed territory.

Handling Equipment-Account Collections. Many concerns manufacturing equipment for factories, machine shops, mines, and public utilities, sell on an installment plan of payment. The credit for such accounts, however, is granted with practically the same precautions that are applied to wholesale accounts, as explained in previous executive manuals.

In most cases, the deferred payments on equipment accounts are secured by a chattel mortgage on the equipment itself.

Under these conditions, it is apparent that the following up of past-due installments, whether closed by notes or standing as open accounts, will fall within the routine procedure indicated for the collection of wholesale accounts. But, of course, special consideration is given to the protection of the mortgaged equipment against any greater depreciation in value than is necessary. In case of repossession, it is necessary that the repossessed equip-

ment shall have a resale value sufficient to offset the uncollected portion of the account.

CONCESSIONS, INDUCEMENTS, AND TRICKS

Among special ways and means of collecting are numerous inducements and tricks, many of which are of doubtful value, altho some of them do succeed. And success in collecting means to get payment and to retain the debtor's good will—altho it is not always possible or necessary, from the standpoint of future profit, to retain the debtor's good will.

Special cash discounts are sometimes offered as an inducement to secure payment of installments before they are due. However—

After an account is past due, price concessions or allowances are unethical and pernicious; they should not be countenanced.

But, of course, if a debtor has a legitimate claim, or even if he only thinks he has a good claim and is honest in his belief, his claim should receive careful and impartial consideration. If the claim is found to be reasonable and correct, it should be allowed promptly and whole-heartedly. If his claim is of such nature as to make impossible a definite decision on its merits, then a reasonable allowance for readjustment may be made provided the claim was made in good faith and not as a mere pretext to secure an unwarranted rebate.

Beyond such legitimate concessions, it is better to lose an entire account than to establish a precedent for a practice which, if it became habitual, would be a constant source of serious trouble with accounts.

Fairness to his own house as well as to the customers of his house is the soundest policy in handling adjustments.

Using Tricks in Collecting. Experienced collectors often develop little tricks by which they secure satisfactory results. These include such devices as unexpected calls,

writing to friends, telephone reminders on the day when the amount falls due, and many other like schemes, which often prove effective.

To be successful, however, such trick practices must be the outgrowth of the personality of the individual collector applied in accordance with a correct conception of just how a particular trick will work in the case of an individual debtor, based upon accurate knowledge of the debtor and his financial condition.

In general, however, it is doubtless true that—

Success in using tricks to collect accounts usually arises mainly from the confidence they give to their originators, rather than from their own effectiveness.

It is a fact, however, that difficult collections are often made by means of decoys or surprises. While it is a grave question as to whether or not some of these stunts are justified in any case, still there is some justification at times in "fighting fire with fire." It is difficult to say that dishonesty on the part of a debtor should not be met with whatever effective means of collecting is available, even tho it does trick him into paying what he owes. But the number of collection cases requiring such procedure are, fortunately, rare. Very few debtors are ever guilty of dishonest intent. The few cases that do come to the collector must be handled by discovering an opening, and by losing no time in taking advantage of that opening. The handling of such cases does not come within any fixed rules. They are rare and exceptional cases which, for successful handling, depend altogether upon the personal ingenuity of the collector.

Each Difficult Collection Is Different. The collector of accounts that are difficult to handle can well afford to remember that no two cases are just alike or are to be treated in exactly the same way. Executives in general must remember that—

In handling difficult problems of any kind, all points of difference as well as points of similarity with problems previously handled must be considered.

The superficial mind will often note the prominent features of a problem that is similar to another problem that has been handled, and, failing to note essential differences, will consider the two problems as identical. Then he wonders why his solution of the problem failed.

The analytical and logical mind will, while taking full cognizance of the points of similarity, detect all the essential and sometimes obscure points of difference. He gives both similar and different points their due attention—and he knows why his solution of the problem is a success.

As stated in Executive Manual 1, the development of an analytical mind, able to grasp and apply sound business principles in the successful solution of executive business problems, is the prime objective of this course of training in Business Management. This development is forwarded in each section and each manual of this training service. Analysis of successful credit and collection procedure and practice has afforded this essential training, as well as other sections. The same kind of executive ability is required in managing credits and collections as in handling other departments of a business.

Analysis and solution of the many important practical problems that arise in office organization and management, as covered in the following eight executive manuals on this subject, will likewise prove the means of further developing executive ability of the kind that successfully overcomes the difficulties which stand in the way of the earning of good net profits—whether those difficulties be related primarily to production, sales, or finance.

“What the Office Produces” is the title of Executive Manual 56. That suggests the right attitude toward an

office, for the office facilitates production, sales, and finance. Every executive must understand the fundamental service rendered by the office of the business—in order to secure or to render a full measure of service in the office to all other parts of the business.

Executive Problem 55, however, comes before we take up Executive Manual 56. It will round out our grasp of the fundamental principles that underlie effective collection procedure, and will develop our ability to apply those principles in actual practice.

CHECK-UP ON PRINCIPLES

Use the following check-up to get the principles of this manual firmly fixed in mind. This will help you to handle the problem which follows. This check-up is entirely for your own personal use, so you need not send it in to the University.

	Check	
	Yes	No
1. Do you consider "Lack of liquid capital" a satisfactory statement of a reason for being slow in payment?		
2. Do you consider "Too much capital outstanding in receivables" a satisfactory statement of a reason for being slow in payment?		
3. Is there any particular need for courtesy in the collection process when no repeat orders can be expected?		
4. Do you believe deception practiced for the purpose of tricking a debtor into payment is all right?		
5. Do you value an accepted draft more highly than a promissory note?		
6. As the first letter of collection correspondence, is it worse to send a polite reminder to a chronic slow-pay customer than to send a vigorous letter to a customer who has previously been prompt pay?		
7. Is the promise of an allowance for payment at a late stage in the collection process the same as a discount for cash payment?		
8. Is a collection telegram sent "collect"?		
9. In your opinion, is the creditors' suspicion of each other's intentions a cause of many unnecessary bankruptcy proceedings?		
10. Do the adjustment bureaus of the National Association of Credit Men help allay that suspicion?		
11. Is the following a good collection telegram: "Must insist immediate payment past due acc't. Answer."?		

	Check	
	Yes	No
12. A new customer had received a bill of goods amounting to over \$100. When the time of maturity came, payment was not forthcoming. After several letters had been written, the customer finally replied that the goods were not what he ordered. Should the collector treat that statement as a flimsy excuse to avoid payment?		
13. A banker whom a business man had asked for a loan of \$3,000 refused the request, but after an investigation, agreed to lend \$5,000 on the agreement that \$100 a week would be paid back. Is it possible that lending a larger sum would make the repayment of the whole more certain?		
14. Do you know of any line of business where it would be better to base the salesmen's commissions on collections rather than on sales?		
15. Is more collecting done by correspondence than by personal calls?		
16. Is collecting by correspondence easier than by personal calls?		

Executive Problem 55

COLLECTION METHODS

THE Sortwell Packing Company, of Indianapolis, is well known thruout a rather widespread territory for the high quality of its hams and bacons, which it distributes direct to the larger hotels and restaurants and also thru grocery and delicatessen stores and meat markets.

The collection policies and practices that this firm follows are practically the same as are followed by many other classes of businesses. It is with these practices that we are concerned in this problem. The credit and collection manager has two cases that are troubling him. These we will study. You will analyze them and suggest the best procedure to take; later, when the executive report is received, you will have a chance to compare your ideas with those which were actually, and successfully, used.

C. V. Green, of Columbia, S. C., has been for over ten years a steady customer of the Sortwell Packing Company. He started out with one small store and gradually built up his business until he now has five retail stores in which he sells groceries and meats.

Recently when payment for one bill for goods was two weeks overdue and another large order had come in, Mr. Johnson, the Sortwell Company's credit and collection manager, had felt obliged to hold up shipment on this order until he could hear from Green. He therefore wrote a friendly letter in which he explained the situation and asked Green to send his latest statement. Johnson could do this with more confidence because he had asked for such statements before and he knew Green would understand.

Johnson, in fact, has come to know Green well, and he realizes that, tho Green is a good salesman and is well

liked in the community, he never has been strong on systematic methods and accurate records. There is also some question regarding Green's ability to meet certain new competition which has entered his locality. The salesman who is traveling that territory reported a month ago that Green's business was "growing fast"; but this report does not mean much since this salesman is always very optimistic about everything.

A letter from Green has just come in. The financial statements it contains are surprising. Green's sales are large enough, but his property accounts (buildings, land, store and delivery equipment, etc.) and his inventory items show a heavy increase over the figures of four months ago. Immediately available liquid assets, on the other hand, have greatly decreased. It has taken but little study of these statements to reveal to the credit man that Green's current liabilities exceed his current assets, and that he may prove to be actually insolvent. The credit man knows that if these statements are shown to other creditors, one of them may start bankruptcy proceedings.

But do the statements truly represent Green's situation? His letter reads as if conditions with him are not unusual, and promises that he will remit in a few days. What should Johnson do to protect the interests of his company—collect the money that is due, or keep the good will of a customer whose past orders have been profitable? Can he do both?

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While he is thinking hard on this question, he is reminded that it is the last Saturday of the month and time for the regular monthly "grief meeting" of executives. At these meetings any executive may describe any unusual problem which he has, so that there may be a general discussion of it and that an effective plan may be developed to co-operate in meeting it and preventing its recurrence.

Mr. Johnson decides to bring up at this meeting a second question regarding another Southern territory, the answer to which may affect his decision in the Green matter.

"Gentlemen," begins Johnson when his turn comes to take the floor, "something has happened during this past month which has happened on two other occasions since I have been in charge of credits and collections.

"Here, right at the beginning of fall, when all our minds should be centered on getting a greater volume of business, I find myself saddled with the task of 'cleaning up' an abandoned territory.

"Some of you know that in the early part of July the sales department opened up a new territory in Alabama with headquarters

at Tuscaloosa, a town of about 12,000 people, some 50 miles southwest of Birmingham. A new salesman, Black, was put in the territory on a straight-commission basis.

"Now Black undoubtedly was a good salesman. We all admit that. He bought an auto so that he could cover his territory effectively and call on everyone at least once every two weeks. He worked hard and was given good support by the sales department, and was able to open up forty-eight brand-new accounts. These all appear to be good credit risks, and collections in the territory have been unusually regular.

"Black worked that territory for all it was worth for about three months and was making progress. But the burden of financing himself proved a little too heavy for him. Even tho he did fairly well he found he could not make headway as fast as he had expected, and he resigned.

"He is now working for another firm in a different territory, and cannot help in maintaining the business he built up or in collecting from our customers, altho he has said he will give us any information he can on questions we refer to him.

"The sales department has thought it inadvisable to put a new man in that territory because if a good man like Black could not make a go of it, another man might do worse.

"Our terms in this territory are net 15 days with overdue accounts subject to sight draft; and Black always did the collecting. I have, therefore, sent letters to every customer in the territory, explaining the situation and telling them to remit straight to us when the items become due.

"I have also tried to sell them on the idea that, now that they are familiar with the quality of our product and the policies of our firm, they can continue to do business with us very conveniently by mail, and that we will give them just as good service as before.

"With that in mind I have already turned a list of the names over to the sales-promotion department. Hereafter quotations will be sent out to them each week. But you know what poor success we have had in the past in trying to keep a territory together by mail; and our prospects are no brighter in this territory.

"Some of these accounts will pay promptly. In fact, a few have already paid. On the other hand, two have written that the prices on our last invoice are anywhere from 1 cent to 2 cents a pound higher than the salesman quoted when he sold them. Three others have written that they did not order these goods at all. Several others are yet to be heard from.

"Now, there is a total of over \$4,500 outstanding, with no account larger than \$150. You can see how unsatisfactory and how costly it will be to get in these collections. Here we are, away up in Indianapolis, and I must use long-distance methods to collect in Alabama; I can do it, but you can imagine that the costs will exceed the profits we make on these orders.

"Do such attempts as this to open remote territories pay? That is one question I want to propose. And the next is: How can I best collect from the accounts who resist paying in full?"

Suppose you had been one of the executives whom Mr. Johnson was consulting. What steps would you have suggested that he pursue in each of the situations presented?

